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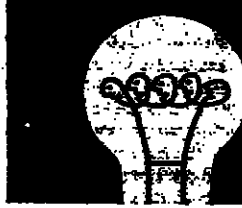


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WORLD NEWS

German consumer price inflation falls to almost zero

German consumer price inflation sank almost to zero in January, providing more fuel for the argument over whether the European Central Bank should cut interest rates. German finance minister Oskar Lafontaine warned that the euro-zone may slip into deflation unless the ECB cuts rates. **Europe, Page 2**

Portugal offer on East Timor
Portugal has offered to fund the annual budget of East Timor, estimated at more than \$100m, as its former colony decides on autonomy or full independence from Indonesia. **Asia, Page 6**

BoJ rejects economic boost
The Bank of Japan's policy board decided to leave monetary policy unchanged in an apparent rejection of calls for radical action to boost the faltering economy. **Asia, Page 6**

Art sales levy plan delayed
Germany backed away from confrontation with the UK over proposals to impose a harmonised levy on art sales in the European Union. **Europe, Page 2**

Japan's military stance reviewed
Japan's ruling Liberal Democratic party may decide to allow pre-emptive measures if Japan faced a threat of military action by another country. **Asia, Page 6**

Iran seeks backing for reforms
The Iranian government is seeking support from women voters and some 15m young Iranians to win their strong endorsement of its reformist policies in today's local elections. **International, Page 7**

'Supervision' for China's budget
China's National People's Congress set up a sub-committee to 'supervise' the country's draft budget before it is adopted at the annual full session of the NPC. **Asia, Page 6**

Belarus regrets losing missiles
Belarus president Alexander Lukashenko said his country made a big mistake when it gave up Soviet nuclear missiles. **Europe, Page 2**

Money launderer gets 14 years' jail
A businessman who used a bureau de change as a front for Europe's biggest money laundering operation was jailed for 14 years in London. **Britain, Page 8**

Disaster in the Alps
The latest news on avalanches, and the state of roads and resorts throughout the Alpine region

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BUSINESS NEWS

Airbus suffers 1998 operating loss of \$200m

Airbus Industrie, the European civil aircraft consortium, made an operating loss of about \$125m (\$200m) last year because of a price war with Boeing of the US. The loss was revealed by British Aerospace, which has a 20 per cent stake in Airbus. **Page 21; Lex, Page 20; BAE's veil of secrecy, Page 28**

LVMI, the French luxury goods group, has stepped up its battle to control Gucci by asking a Dutch court to freeze voting rights on a huge block of shares issued by Gucci's board. **European companies, Page 23**

Morgan Stanley, the US investment bank, and N.M. Rothschild of the UK have been appointed as advisers by the Italian Treasury to aid the sale of its stake in Telecom Italia. **European companies, Page 23; Editorial Comment, Page 19**

Profits at its mobile phones arm helped Telefonica offset the impact of deregulation in its fixed-line business in Spain and provisioning for Latin America. **European companies, Page 23**

Investors sold US Treasuries for the third day running on renewed fears that the Federal Reserve's next move will be to raise short-term interest rates. **Page 21; Bonds, Page 34**

Kirch Group, the privately-owned German media group, is close to taking control of the pay television venture, Premiere, International companies, **Page 24**

The extent of corporate Japan's malaise was underlined when companies in a range of sectors issued profits warnings. **Asia-Pacific companies, Page 22**

DaimlerChrysler announced a 29 per cent rise in full year net profit. **European companies, Page 23; Lex, Page 20**

Dresdner Bank of Germany revealed that it had substantially increased loan loss provisions in the last quarter of 1998. **Page 21**

Lex on DaimlerChrysler
Now it's time
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Brussels makes big farm reform concession

Move aimed at breaking logjam
holding up radical changes in aid

By Michael Smith in Brussels

The European Commission yesterday made its first big concessions on farm reform in an attempt to break the logjam holding up the most radical change to the European Union's agricultural aid regime for 37 years.

The moves came as EU heads of government gathered in Petersberg, near Bonn, for an informal summit today to review the progress of talks on reforming the union's budget.

Germany, holder of the EU's rotating presidency, is under pressure to demonstrate progress on the "Agenda 2000" reform package - aimed at allowing the union to enlarge to the east - in readiness for a final agreement planned for next month.

Last night, Bonn was still hoping for a farm reform deal this week. However, France was among countries which rejected yesterday's compromise package, saying it was "unacceptable".

Some diplomats said talks could go into next week and beyond. The German presidency outlined a compromise which would cut by 25 per cent the prices paid to farmers for grain and for beef in the previous 18 months of talks, the commission had insisted on a 30 per cent cut.

The package also suggested guaranteed milk prices could fall just 10 per cent, up from the 15 per cent suggested earlier. Greece, Italy and Spain were offered the possibility of lifting production.

Even if the price cuts are lower than the commission wanted, the final deal looks certain to be

more radical than the first and only big reform of the Common Agricultural Policy, agreed in 1992.

It is likely to include plans for unprecedented annual cuts in direct aid to farmers - after subsidies peak in the next few years - and a reversal of the trend that has increased CAP spending in almost every year since it was set up in 1962. The CAP costs €40bn (£45bn) a year, which is nearly half the EU budget.

The commission held firm on its proposal to cut cereals prices by 30 per cent to bring them down to world levels.

However, it agreed to extend until 2002 the practice of paying farmers to take land out of production. Other concessions included phasing in over three years, rather than one, the commission's plan to reduce direct aid for oilseeds to the level of cereals.

On milk, the commission held out the prospect of abolishing production-limiting quotas in 2006 by offering a review in 2003. The UK, Italy, Sweden and the Netherlands have been pressing hard for abolition but other countries are fighting to preserve quotas.

French and British diplomats said the package unveiled by Germany and the commission would increase reform costs at a time when countries wanted to stabilise EU spending.

The commission acknowledged yesterday's beef and cereals changes would cost €600m annually by 2006. However, the forecasts take no account of the impact of direct aid cuts.

Saudi central bank intervenes to support riyal

By Randa Khalaf in London

Saudi Arabia's economic problems resulted in heavy intervention in currency markets yesterday by the Saudi Arabian Monetary Agency as pressure grew on the riyal.

One banker said SAMA, the kingdom's equivalent of a central bank, "flooded" the market with dollars. The last time the agency intervened was last summer, when, in the wake of the Russian crisis, it is believed to have spent close to \$1bn to support the riyal.

With the outlook for oil prices not expected to improve, Saudi Arabia's oil-dependent economy is facing one of its most difficult periods and public finances are expected to come under further strain. That has led some speculators to bet on a devaluation.

The six-month forward rate for the riyal, which is pegged to the dollar, is at its lowest for at least nine years.

"After the Brazilian peg went, people have been looking at other fixed rates where public finances are coming under pressure," said a banker yesterday. "Given that the outlook for oil prices is weak, they think Saudi Arabia's current situation will persist."

SAMA in August ruled out a devaluation and bankers said the central bank's position was likely to remain unchanged.

Although much of the short-selling came from big hedge funds outside Saudi Arabia, there were rumours yesterday that even Saudi companies were starting to take action to avoid being hit by a devaluation.

"Some of those who shorted the riyal got burned and this probably stopped the momentum building up," said a banker.

Low oil prices are presenting a daunting challenge for Crown Prince Abdullah, who is managing the day-to-day affairs of the kingdom. They have forced the world's largest oil producer to cut spending by 12 per cent in the 1999 budget. Saudi Arabia's budget deficit last year reached 9.4 per cent of gross domestic product against 1.1 per cent in 1997.

Saudi Arabia has foreign assets of more than \$60bn, but estimates of foreign exchange reserves that can be used immediately to support the currency vary widely.

Mohamed El-Erian, managing director at Salomon Smith Barney, said Saudi Arabia had a clean balance sheet on external debt and could raise funds through syndicated loans. "This is also an economy which can reduce public spending very sharply if it has to do so," he said.

BAE's Saudi sales, **Page 28**



Janet Reno, US attorney-general, talks to reporters about the investigation of special prosecutor Kenneth Starr. Her department is examining some of his methods in the light of the Monica Lewinsky case. **Picture: AP**

Hoechst link plan thrown into doubt

By Robin Allen in Dubai, Uta Harnischfeger in Frankfurt, David Owen in Paris and Clay Harris in London

Doubt has been cast over one of the world's largest industrial mergers - between Hoechst, the German pharmaceuticals group, and Rhône-Poulenc of France.

The management of Kuwait Petroleum Corporation, the largest shareholder in Hoechst, is said to be divided over whether to support the plan.

The deal, announced in December, would create Aventis, a company with annual sales of \$20bn and 95,000 employees. It would be the world's biggest life sciences group, based on 1997 sales. With a 24.5 per cent stake, KPC is in a position to thwart the plan when Hoechst shareholders vote on May 4. The deal requires the support of 75 per cent of all shareholders.

Hoechst, alarmed that the deal could fall apart, has hired Morgan Stanley Dean Witter, the US investment bank, to persuade its Kuwaiti shareholders to pledge their support. KPC has retained J.P. Morgan to advise it on the proposed merger. Morgan Stanley and J.P. Morgan declined to comment.

Shelkh Saud Nasser al-Sabah, the Kuwaiti oil minister who is also ex-officio KPC chairman, said last week the merger did not serve Kuwaiti interests, and a senior KPC official said the group was "undecided" about its reaction to the proposed merger.

Although some close to the situation expect the sole Kuwaiti member of the Hoechst supervisory board, Khaled-saleh Buhamah, to back the deal, that is only likely to happen if differences in Kuwait can be ironed out. Analysts say KPC's position on Aventis is clouded by apparent divisions within the Kuwaiti hierarchy.

KPC's qualms are believed to centre on the tax implications of the deal and whether the merger is in the best interests of Kuwait. Analysts say the Kuwaitis' doubts may stem from increasing pressure to re-evaluate their overseas assets because of successive budget deficits.

A Gulf-based western banker said management of the overseas assets had become "a critical factor in Kuwait's economic future". Analysts say KPC has been unhappy about Hoechst's direction since it bought its first stake in 1982, when it bought into other large German companies.

Warning over flood of euro counterfeits

By John Willman in London

Arrangements for minting two of the new euro coins could lead to a flood of counterfeit coins that would undermine confidence in the European Union's new currency, vending machine operators warn.

The opportunity for counterfeiters comes from the failure to set a standard for the electrical resistance of the new €1 and €2 coins.

These will be popular for vending machines selling soft drinks and cigarettes, as well as ticket machines on public transport and parking meters.

Variations in production methods in the EU's 15 mints mean the bimetallic coins are likely to have widely differing "electronic signatures" as far as the EU's 5m vending machines are concerned.

If the machines are programmed to accept such a variety of coins, it will be easier for counterfeiters to produce substitutes. The alternative is to make the machines more choosy about the coins they accept. The machine operators believe this would lead to frustration among users and increase concerns at the time of the changeover.

The problem is to be discussed at a meeting between the European Vending Association and the EU mint directors' committee next month. The machine operators believe standardisation would not need further legislation, but action is needed with some countries beginning to mint coins.

"The industry wants something to happen quickly," said Catherine Piana of the EVA.

The problem is the second to emerge with the new coin set, which goes into circulation in the countries that have adopted the single currency in 2002.

Earlier this year the machine operators and organisations representing Europe's 7.5m blind and partially sighted people called for changes in the weight and feel of two low-denomination coins to make them easier to distinguish. New specifications were adopted this week for the 10 cent and 50 cent coins to meet these demands.

The problem this time comes because the coins are made from two metals. Establishing a consistent electronic signature is more difficult because of the combination.

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WORLD MARKETS

STOCK MARKET INDICES		GOLD	
New York		New York Comex	
Dow Jones Ind Av	8,282.38	London	288.4 (288.7)
Nasdaq Composite	2,287.59	London	287.55 (287.05)
Europe and Far East			
CAC40	4,182.58	DOLLAR	
DAX	4,028.55	New York	
FTSE 100	4,028.55	£	1.50585 (1.507)
FTSE Europe 300	4,028.55	€	0.9043 (0.9058)
Nikkei	14,470.45	¥	1.4552 (1.446)
US RATES		Y	119.325 (121.5)
Federal Funds	4.75%		
3-mth Treas Bill	4.54%	London	
Long Bond	5.65%	£	1.5044 (1.5058)
Yield	5.65%	¥	1.4410 (1.457)
OTHER RATES		Tokyo Close	
UK 3-mth bank	5.5%	£	1.5044 (1.5058)
UK 10 yr Gilt	5.5%	¥	1.4410 (1.457)
Euro Euro	5.5%	£	1.5044 (1.5058)
Germany 10 yr Bund	5.5%	¥	1.4410 (1.457)
Japan 10 yr JGB	5.5%	£	1.5044 (1.5058)
NORTH SEA OIL (Aral)		¥	1.4410 (1.457)
Brent Blend	\$10.25	SPY	1,520.5 (1,520.5)

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BANK-BILL TARGET PRICES		Prices in local currency as shown	
Belgium	100.00	Belgium	100.00
France	100.00	France	100.00
Germany	100.00	Germany	100.00
Italy	100.00	Italy	100.00
Japan	100.00	Japan	100.00
UK	100.00	UK	100.00
US	100.00	US	100.00
Canada	100.00	Canada	100.00
Australia	100.00	Australia	100.00
South Africa	100.00	South Africa	100.00
India	100.00	India	100.00
China	100.00	China	100.00
Indonesia	100.00	Indonesia	100.00
Malaysia	100.00	Malaysia	100.00
Philippines	100.00	Philippines	100.00
Singapore	100.00	Singapore	100.00
Thailand	100.00	Thailand	100.00
Vietnam	100.00	Vietnam	100.00
Yemen	100.00	Yemen	100.00

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WORLD NEWS

EUROPE

LAFONTAINE WARNING EURO-ZONE MAY SLIP INTO DEFLATION UNLESS ECB CUTS SHORT-TERM RATES, SAYS BONN FINANCE MINISTER

German price inflation nearly zero

By Tony Barber in Frankfurt

German consumer price inflation sank almost to zero in January, providing more fuel for the argument between the centre-left government in Bonn and its critics over whether the European Central Bank (ECB) should cut interest rates.

The Federal Statistics Office in Wiesbaden reported that the consumer price index had risen by only 0.2

per cent last month from its level in January 1998. On a month-on-month basis, the index actually fell by 0.2 per cent in January compared with December 1998.

The virtual disappearance of inflation in Germany has prompted warnings from Oskar Lafontaine, finance minister, that the euro-zone may slip into deflation unless the ECB cuts short-term interest rates from 3 per cent, where they

have stayed since early December.

The ECB says European interest rates are already very low by historical standards. It argued in its monthly report for February that the euro-zone might even face an inflationary risk from excessive wage growth and a relaxation of government's budgetary discipline.

Johann Hahnen, president of the statistics office, said

Germany was going through a period of price stability rather than deflation.

He noted that the euro's fall of more than 5 per cent against the dollar since early January meant that pressure might grow on German consumer prices from more expensive imports.

Independent economists say the euro's fall makes it unlikely that the ECB will cut rates soon, since such a step could send the currency

even lower against the dollar.

Moreover, they say the ECB may believe that headline inflation in Germany and other euro-zone countries is understated because of the distorting effect of significantly lower energy prices.

Germany's annual inflation rate was affected by the use of a new method to calculate inflation.

The statistics office

changed the base year from 1991 to 1995 and altered the basket of monitored goods and services to reflect new consumer habits.

Economists said that, under the old method, the consumer price index would have been 0.1-0.2 percentage points higher. They said the main reason for the virtual absence of inflation lay in large price declines for heating oil, telecommunications services and motor fuels.

Schröder backed on jobs alliance

By Ralph Atkins in Bonn

Gerhard Schröder, German chancellor, yesterday won pledges from industry to stick to the long term with his "alliance for jobs" programme, after promising to use the forum for closer co-operation on tax policy.

Speaking after the second "summit" meeting of employers, unions and ministers since he took office in October, Mr Schröder said the alliance would not be blown off course by industry's vehement opposition to many of his government's reforms. In future, it would look to seek agreement on tax policy.

Securing the future of the alliance is a boost for Mr Schröder. His government has been forced to retreat in recent weeks on key elements of its programme including reform of nationality laws and the shutdown of nuclear power.

Hans-Olaf Henkel, German industry association (BDI) president, insisted the decision did not signal an end to his criticism of the government. Yesterday, 22 prominent businessmen called for a halt to these planned tax reforms. Mr Henkel said, however, he wanted to keep the alliance going so he could help shape future decisions.

An early issue favoured by business will be Mr Schröder's promises to cap the top tax rate for all companies at 35 per cent from next year. The pledge has put pressure on Oskar Lafontaine, finance minister, who has so far opposed a significant "give-away" for business.

Mr Schröder hinted the "alliance for jobs" could in the future also touch on industry wage settlements - despite unions' determination to preserve the autonomy of pay negotiations.

The alliance for jobs is central to Mr Schröder's plans for cutting Germany's 4m unemployment total and rebuilding an industrial consensus which the chancellor argues was a German hallmark but disintegrated under his predecessor, Helmut Kohl. Apart from summit meetings, such as yesterday's, the chancellor has organised eight working groups to cover issues including tax policy, social security reform, working hours and eastern Germany.

The structure has met scepticism from industry. But Mr Henkel of the BDI said he was happier Germany had adopted the Dutch consensus model, which had operated in the Netherlands since 1982, than pursued a "Thatcherite" approach "for which UK society was still paying the price".

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EUROPEAN COMMISSION BRUSSELS PRESIDENT ADMITS TO MOST SERIOUS CRISIS YET IN PUBLIC CONFIDENCE

Santer pledges to fight against fraud

By Neil Buckley in Brussels

Jacques Santer, European Commission president, has pledged to "leave no stone unturned" in the hunt for fraud at the Commission, to overcome what he calls the most serious crisis of public confidence yet in the European Union.

Writing in today's Financial Times, Mr Santer also appeals for the Commission, the EU's executive arm, to be given extra resources to cope with its ever-expanding tasks. Too often, he says, the Commission is asked "to

drive a Mercedes with the engine of a Trabant".

His appeal is carefully timed to coincide with today's mini-summit of EU heads of government in Bonn, to discuss the EU's budget for 2000-06.

It comes a month after the Commission narrowly avoided a censure in the European parliament, the EU's only directly elected assembly, over a series of claims of fraud and mismanagement. A successful censure vote would have sacked all 20 commissioners who head the executive.

His promise to "get the house in order" is also part of a charm offensive before publication of a report on March 15 by the five-person "committee of experts" - set up after last month's parliamentary vote - which is investigating the fraud claims.

Parliament has warned that if the inquiry finds individual commissioners guilty of wrongdoing, it will press Mr Santer to sack them. MEPs have also threatened to reintroduce their blanket censure motion, their only legal sanction against the Commission, if

they feel it is not doing enough to tackle shortcomings.

Tensions have again run high between the two institutions this week. Edith Cresson, education commissioner, was maulled by parliament's budgetary control committee over the award of a lucrative EU research contract to a dentist acquaintance.

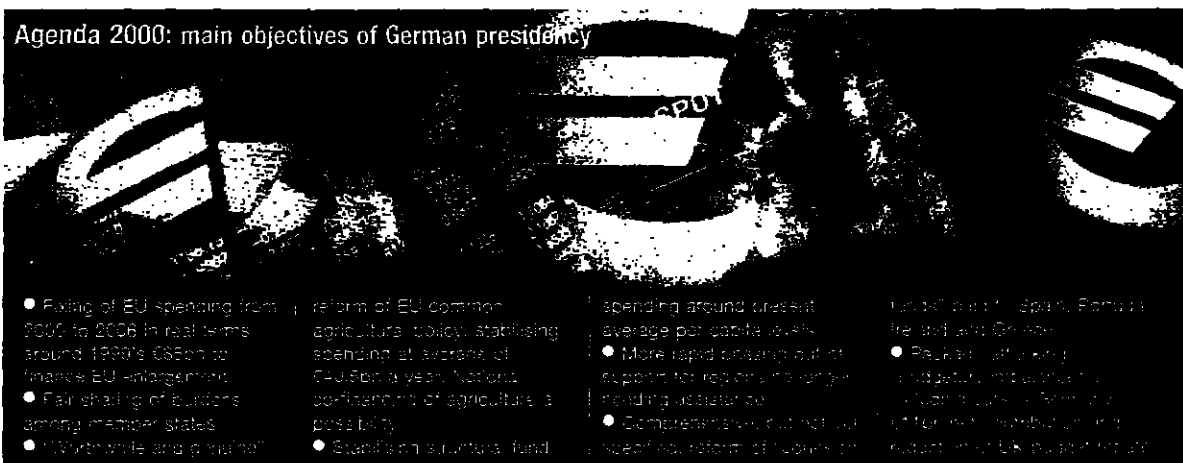
Mr Santer goes further than previously in acknowledging a "crisis of public confidence" over the handling of EU finances, which is "not the first... but by

far the most serious".

He adopts a noticeably more contrite stance towards the censure vote. At parliament in Strasbourg last month, he insisted the 293-232 vote against censure represented a vote of confidence in him and his team.

Now, he admits the assembly only "narrowly avoided" censure and delivered a "stern reminder". He welcomes parliament's action as a sign that "democracy is coming of age at European level".

Personal View, Page 18



Fischer out on a limb as EU states agree to differ on Agenda 2000

Negotiations on reform are being hampered by ill-feeling over Germany's role as president, writes Peter Norman

Joschka Fischer, Germany's foreign minister, must have had a strong feeling of déjà vu.

It was more like a meeting of his notoriously quarrelsome environmental Green party when the minister tried to sum up the German EU presidency's view of progress at the end of last Sunday's "conclave" on European Union reform in Luxembourg.

Without exception, Mr Fischer's colleagues from the other 14 member states objected to his attempt to put a positive gloss on progress in the ambitious Agenda 2000 negotiations over reform of the EU's budget, farm and regional policies. In the end, the conclave, held to clarify issues ahead of today's informal summit of EU leaders in the historic Petersberg hotel near Bonn, simply confirmed known differences.

The stand-off between Mr Fischer and his fellow ministers showed how Germany, as current holder of the EU's six-month rotating presidency, is making heavy weather of the complex Agenda 2000 negotiations.

The plan is to give the EU a clear financial perspective for 2000 to 2006 so the union can take in new members to the east and south. Since assuming the presidency in January, Bonn's strategy has been to try to narrow differences among the 15 member states, taking the main elements of the negotiation in turn, with the goal of a full accord at a special

summit of EU leaders in Berlin on March 24-25.

Spearheaded by Dietrich von Kyr, Bonn's veteran ambassador to the EU, German negotiators are seeking agreement on cutting EU spending on agriculture and limiting the structural funds for poorer regions and other outlays on research, development and administration.

These are the elements on the expenditure side of a "negotiating box" which Germany has presented to its partners and which is supposed to evolve into a draft settlement for the Berlin meeting. The box is revised to reflect discussions each month among the EU's foreign, finance and farm ministers and negotiating sessions of the member states' EU ambassadors in their powerful "Coreper" committee, which handles much of the day-to-day decision making in Brussels.

The negotiations on spending have proved predictably contentious. All member states say they see the merit of controlling EU expenditure when national budgets are tight and the union has to finance enlargement.

But expenditure control - encapsulated in the presidency's idea of stabilising the EU outlays in real terms around the 1999 level of €85bn (\$95bn) - involves pain, and no country is prepared to be the first to sacrifice cherished entitlements. The most vocal is Spain, which regards its income from the "cohesion" funds intended to help it prepare

for economic and monetary union as sacrosanct.

Other aspects of the EU finances are equally fraught because important national interests are involved. "The steps forward have been very, very small," said one foreign minister reviewing progress over the past two months. This applies especially to problems of EU financing and the "budgetary imbalances", by which some countries, notably Germany, pay a disproportionate share to Brussels.

Germany's determination to use the negotiations to cut its €11bn net contribution to the EU is an extra problem. Other countries argue Bonn is compromised and unable to fulfil the "honest broker" role required of a presidency in a big EU negotiation. "The presidency is doing the job of the German delegation," complained one Spanish diplomat. Fueling the ill feeling is Bonn's refusal to close out options for settling the budgetary imbalances, that are anathema to other member states.

These include an "adjustment" or reduction to the UK budget rebate, negotiated in the 1980s by Margaret Thatcher when she was prime minister and firmly defended today by Robin Cook, the foreign secretary. Another sore point is Bonn's backing for increased national co-financing of agricultural support, which is vociferously opposed by France because France alone would be a significant loser from such a policy.

During the talks last Sunday, Mr Cook appeared unfazed when faced by 14 EU partners demanding cuts in the UK rebate. But the

recent negotiations have produced pained expressions of incomprehension among French diplomats. "There is no proper dialogue between France and Germany," said one French diplomat.

Germany has rebuffed what Paris calls a "global" approach to the negotiations, which France claims would cut Germany's annual net contribution by about €3bn, mainly through stabilising EU spending.

Instead, Bonn's insistence that co-financing should remain on the table has fuelled French fears that Germany will use it in an "ambush" in the final stages of the Berlin summit to solve any negotiating impasse.

Rightly or wrongly, France believes the centre-left government of Germany's Chancellor Gerhard Schröder is breaking an unwritten rule of the Franco-German relationship by persisting with a policy that is fundamentally hostile to French interests. In the past, the French say, neither France nor Germany would press a policy opposed by the other partner.

For their part, German diplomats say the complaints are a sign the negotiations are moving, albeit painfully, towards a compromise in which every state will have to give up something. "We are between the third and fourth acts of a five act drama," commented one.

In his invitation to today's informal summit, Mr Schröder made clear that the meeting has not been called to forge agreements. Given the bad blood of recent negotiations, he will have to take care that Agenda 2000 is not heading for derailment.

Art sales levy measure postponed

By Emma Tucker in Brussels

Germany yesterday backed away from a confrontation with the UK over controversial proposals to impose a harmonised levy on art sales in the European Union.

EU diplomats said other member states had agreed at a meeting of internal market ministers to postpone adoption of the resale-right directive to save Tony Blair, the British prime minister, from a spat of anti-European newspaper headlines ahead of today's meeting of EU leaders in Bonn and just days after he unveiled preparation plans for a changeover to the euro.

But officials said they expected "early agreement" on the proposal after further examination of the most contentious issues.

The draft directive would give artists a royalty from the onward sale of original works up to 70 years after they die.

London's auction houses claim the levy - which does not exist in the UK, Ireland, the Netherlands or Luxembourg - would drive art sales out of the EU to Switzerland and the US.

But other member states say different regimes within the EU distort the art market. They have already mustered enough votes within the council of ministers to outvote the British, and the other opposing member states. As the directive introduces a copyright royalty, rather than a tax, it only requires the support of a qualified majority of member states to become law.

Germany, which holds the rotating EU presidency, is ready to offer Britain further concessions on the directive to win its approval.

These would primarily lower the levy to be charged on the most expensive works of art.

Under the current proposals there would be a royalty of 1 per cent on the portion of the sales price of a work of art exceeding €200,000 (\$224,000). Under the expected compromise 0.5 per cent would be levied on the portion exceeding €500,000.

which yesterday made clear that it was opposed to any change.

The UK, Ireland, Denmark, Sweden and Finland support a relaxation of the rules. Most branded manufacturers also oppose a change, but supermarkets and other general retailers say the EU law undermines free trade.

Any Commission proposal would have to win the support of a qualified majority of member states to become effective.

However, any modification of the law is likely to be hotly contested by France

NEWS DIGEST

BELARUSAN PRESIDENT

Lukashenko regrets giving up N-weapons

Alexander Lukashenko, Belarusian president, said yesterday his country made a big mistake when it gave up Soviet nuclear missiles and hinted he would like a new nuclear arsenal, Interfax news agency said.

Mr Lukashenko, in Moscow for a meeting of five former Soviet republics, told Interfax in an interview that nuclear weapons in Belarus might help guarantee the security of a loose union being created by his country and Russia.

"I considered and consider it a big mistake [giving up nuclear weapons in the 1990s]," he was quoted as saying. "In the opinion of A. Lukashenko, nuclear weapons could in the current situation be brought back to Belarus."

Interfax said, paraphrasing Lukashenko's words. "We must think about the safety of our common fatherland."

Belarus was home to 72 SS-25 single-warhead missiles when the Soviet Union broke up in 1991. Their removal to Russia was partially funded by the west.

Mr Lukashenko, whose Soviet-style economics and human rights record have left Belarus diplomatically isolated and cut off from western aid, said a "unipolar world" had emerged after the break-up of the Soviet Union. "It is impossible to allow that one leader or one country to act like an elephant in a china shop," he said in a reference to the US.

He also said Nato's eastward expansion posed a threat to Belarus and Russia, as did the desire of some states of the post-Soviet Commonwealth of Independent States to quit its collective security pact. Uzbekistan, Georgia and Azerbaijan are considering leaving the pact.

Reuters, Moscow

DUTCH ECONOMY

Spending spree boosts GDP

The biggest consumer spending spree in more than 20 years fuelled a 3.7 per cent rise in Dutch gross domestic product last year, the Central Bureau for Statistics reported yesterday.

Consumer spending, which accounts for nearly two-thirds of total output, rose 4.4 per cent in 1998. Dutch households spending last increased this much in 1978, the bureau said.

Outlays for durable goods - led by consumer electronics, new cars and household furnishings - rose by 8.7 per cent, almost twice last year's rate and the greatest increase since the 1970s.

The pace of Dutch growth slowed during the year, with fourth-quarter GDP reaching an annualised 3.1 per cent against 3.2 per cent a year before. The CBS said it expected the economy to cool further in 1999. GDP grew by 3.6 per cent in 1997.

The Central Planning Bureau, a government think-tank, said last week that it would probably slice this year's GDP forecast to 2 per cent from 2.25 per cent.

Jeremy Gray, Amsterdam

SLOVAK EX-MINISTER

Parliament lifts immunity

The Slovak parliament has removed parliamentary immunity from a former minister of interior, so that he can be prosecuted for cancelling a referendum the previous government opposed.

The vote on Gustav Krajci is the first time parliament has allowed a deputy to be prosecuted and is likely to be followed shortly by the removal of immunity from Ivan Lexa, the former head of the secret service, who is alleged to have masterminded the kidnapping of Michal Kovac, the son of the former president.

The cancelling of the referendum for direct elections to the presidency in 1997 and the kidnapping of Mr Kovac in 1995 have long been seen as part of the conflict between the former government of Vladimir Meciar and the then president, which destroyed Slovakia's chances of joining Nato or the fast-track negotiations to the European Union.

The new Slovak government, which took office in October, has tried to expose wrongdoing by its predecessor and has purged the bureaucracy, diplomatic service, state-run media and state-owned companies of its appointees. It is also planning to reverse some of its suspect privatisations, notably of gas storage company Nafta Gbely.

Robert Anderson, Prague

SPANISH TRADE

Import-export gap widens

Spain suffered the biggest trade shortfall among euro-zone countries last year as the gap between imports and exports widened by 31.5 per cent to Ptas3,548bn (€21.3bn, \$23.5bn), according to customs figures.

Economic crises in overseas markets and slower growth by key customers such as Germany and Italy acted as a brake on Spanish exports, which rose 6.7 per cent during the year to Ptas16,290bn, while imports climbed 10.4 per cent to Ptas19,838bn.

However, the economy ministry said Spain's foreign sales were still rising faster than the overall expansion of world trade, nudging the country's global market share up from 1.95 per cent to 2 per cent.

The deficit in merchandise trade was offset by a record year for tourism, which brought Spain net revenues of about Ptas6,000bn, the ministry said. It expected an overall surplus in goods and services equivalent to 0.4 per cent of gross domestic product. David White, Madrid

FRENCH BANKS

Interest rates for savings cut

Crédit Agricole and Banque Nationale de Paris, two of France's three largest banks, yesterday cut the interest rates they pay on savings accounts from 3 per cent to 2.5 per cent.

The move, which follows comments this week by Jean-Claude Trichet, governor of the French central bank, that state-controlled savings rates were "too high", increases pressure on the government to reduce these rates.

Last year, the finance ministry laid out strict rules to determine the level of savings rates. Although the rules point to a level of no more than 2.5 per cent, the government has so far failed to bring the rates down from the current 3 per cent.

Private sector banks complain that state-controlled rates, available only on tax-free savings products - the Livret A - offered by the public sector savings bank Caisse d'Épargne and the post office, distort competition in the banking sector.

Savings accounts - or livrets - are the country's most popular savings instrument. Livrets offered by private sector banks, whose customers must pay tax on the interest they receive, have struggled to compete with the Livret A.

Association Française des Banques, the banking industry's trade association, said the move by BNP and Crédit Agricole would "push the government to lower state-controlled rates, which are too high in the current market conditions". Samer Iskandar, Paris

Monti hints at altering 'grey goods' law

By Emma Tucker in Brussels

Mario Monti, single market commissioner, yesterday hinted at good news for supermarkets and other non-specialist retailers wanting to sell cheap imports of luxury goods, when he said he was inclined to alter the EU law stopping them doing so.

"I am provided with satisfactory evidence that such a move would have the ultimate effect of reducing consumer prices without any

detrimental effect on employment, I would tend to look at it not only with an open, but a favourable mind," he said after an internal market council meeting in Brussels.

Mr Monti had presented EU ministers responsible for the single market with a report showing that scrapping EU restrictions on "grey" imports would probably produce small immediate cuts in retail prices.

However, the report by National Economic Research Associates (Nera) is contested by the European Parallel Import Coalition (Epic). It says its own research reveals that liberalising grey imports would have a dramatic effect on consumer prices.

Simon Millward, chairman of the coalition, claimed: "Simply put, the European consumer gets a raw deal and pays too much to branded goods manufacturers who

control the market".

The Nera report was ordered by the Commission as a starting point for discussions on whether to relax the EU's trademark directive which blocks "grey" imports from outside the EU.

The Commission called for it last year after the European Court of Justice ruled that the directive prohibited such imports.

However, any modification of the law is likely to be hotly contested by France

which yesterday made clear that it was opposed to any change.

The UK, Ireland, Denmark, Sweden and Finland support a relaxation of the rules. Most branded manufacturers also oppose a change, but supermarkets and other general retailers say the EU law undermines free trade.

Any Commission proposal would have to win the support of a qualified majority of member states to become effective.

However, any modification of the law is likely to be hotly contested by France

KURDS PUBLIC PROSECUTOR-ACCUSES PKK OF INTIMIDATION

Turkish move to ban Hadeep party

By Leyla Bodan in Ankara

Turkey's public prosecutor yesterday sought to ban Hadeep, the country's largest pro-Kurdish party, from general elections on April 18 in a move the party called a serious blow to the poll's legitimacy.

Vural Savas, the public prosecutor who secured the closure of the Islamist Welfare party in 1997, said he had "serious information" that the PKK guerrilla group - whose leader, Abdullah Ocalan, was captured by Turkey last week - was intimidating Kurds ahead of the poll to force them to vote for Hadeep.

Mr Ocalan yesterday saw his lawyers for the first time since his arrest on February 15. But the governor of the Bursa region, whose authority extends to the island prison where Mr Ocalan is being held, told the defence team to stick to its brief of defending the captured guerrilla chief.

The governor's remarks were a clear warning to the lawyers, who are connected

to Turkey's human rights movement, to stay away from wider issues such as human rights and Kurdish grievances in the south-east of Turkey, where Kurds form a majority.

Mr Savas' application to the Constitutional Court for a pre-election ban against Hadeep marks an important step beyond his earlier move to close the party on the grounds the party had an "organic" link with the PKK - a charge rejected by Hadeep.

"If they want to kill the party they can," said Mehmet Setan, a member of the party's executive board. "But if they take a decision like this, the legitimacy of the election will be finished."

Hadeep said the public prosecutor had timed his latest attack to follow the expiry of Wednesday's deadline for all Turkish political parties to submit their lists of candidates for the parliamentary and local elections. This meant depriving Hadeep candidates of the alternative option of registering as independents.

Turkish newspapers also published new alleged confessions by Mr Ocalan, who was said to have told his interrogators Hadeep was connected to the PKK. Hadeep said yesterday the only thing the two had in common was their desire for a solution to Turkey's Kurdish problem.

In Germany, hit by violent Kurdish protests since the capture of Mr Ocalan, security chiefs called yesterday for the PKK to be reclassified as a terrorist group.

This would give the authorities wider powers to control the PKK on German soil.

Greece meanwhile evacuated three aides to Mr Ocalan who had been held up in its embassy in Nairobi along with Mr Ocalan before he was seized and flown back to Turkey to face trial for treason. Turkey holds Mr Ocalan responsible for a 15-year conflict between the PKK and the Turkish armed forces in the country's south-east, at the cost of up to 30,000 lives and \$7bn a year to the Turkish treasury.

Kosovo deal pledged by moderates

By Guy Dinmore in Pristina

Members of the Kosovo Albanian delegation to peace talks in France flew back to Pristina yesterday, pledging that hardliners in the Kosovo Liberation Army (KLA) who prevented signature of a deal at the talks would not be allowed to prevent a final agreement when negotiations resume on March 15.

Veton Surroi, who played a moderating role within the 16-strong Kosovo Albanian delegation, accused Adem Demaci, a KLA political representative, of trying to block the proposed agreement, which would give Kosovo broad autonomy within Yugoslavia but not independence.

"One man or group cannot hold hostage all of Kosovo," Mr Surroi said in the offices of his Albanian language newspaper, Koha Ditore.

Mr Surroi's comments confirmed the impression created at Rambouillet that there are deep divisions within the KLA, which will have to be resolved before a peace agreement is possible.

Sources close to the KLA said Mr Demaci, a veteran campaigner for secession who spent 28 years in Serbian prisons, had staged what amounted to a coup within the KLA while the delegation was in France. Mr Demaci was named the rebels' chief political representative and appears to have engineered the appointment of Sulejman "Sultan" Selimi as the first overall military

commander of the KLA.

After 17 days of talks in the Rambouillet chateau outside Paris, the ethnic Albanian delegation - which included four senior KLA members - agreed to accept the deal in principle and consult their people before returning to sign on March 15. Serbia expressed reservations about the US-drafted political text and rejected plans to send a 28,000-strong Nato-led peacekeeping force to Kosovo.

"This is a historic moment," Mr Surroi said. "This is the time for peace and that's the feeling of the people of Kosovo, not an abstract notion but a peace secured by Nato, where you get a chance to build democratic institutions not seen by generations. By March 15 we will sign, but what will happen before then I don't know."

Mr Demaci has also attacked an agreement made within the delegation to form a "provisional government" headed by a prime minister from the KLA, which will hold office until elections take place nine months after a peace accord is signed.

At Rambouillet, Hasim Thaci, the 29-year-old head of the KLA's political directorate, emerged as the leading figure, but he appears to have been constrained by influence wielded by Mr Demaci from outside the chateau. Ibrahim Rugova, who opposes the use of violence and was twice elected



Ethnic Albanians in Kosovo: KLA hardliners are accused of blocking proposed autonomy deal. Reuters

to a parallel presidency by ethnic Albanians in 1991 and 1993, was marginalised.

KLA sources said Mr Demaci had support from militant nationalists in exile and from a small number of hardcore fighters, but lacked

backing from a people tired of war.

Agreement among the Kosovo Albanians to sign a peace deal would give the western powers a free hand to put pressure on Slobodan

Milosevic, the Yugoslav president, to follow suit. But so far Belgrade has dismissed the threat of Nato air strikes. Mr Surroi will try to reignite war in Kosovo to destroy the peace process before March 15.

Rome agrees sale of airport stake

By James Blitz in Rome

The Italian government yesterday gave the green light to the sale of its 54 per cent stake in Aeroporti di Roma (ADR) later this year, initiating the first in a series of privatisations it has pledged to carry out before the year 2000.

The government's majority stake in ADR is held by IRI, the state holding company, and is worth about 696bn (894m) at current prices. The government has decided to sell a 51 per cent stake in a single block following a competitive tender, while the remaining 3 per cent of the shares will be offered to Rome's regional authorities.

ADR runs Rome's Fiumicino airport, which had passenger traffic of 25m last year, and the smaller Ciampino airport. It also owns 20 per cent of ACSA, the South Africa-based airport company said by ADR to be the biggest in Africa.

The government made clear that the consortia bidding to buy ADR would have to produce an industrial plan that developed Fiumicino as a European hub.

Several consortia are thought to be interested in bidding for control of ADR, including a group that brings together British Airways and Carlo De Benedetti's CIR industrial holding company. BAA already has a 70 per cent

stake in Naples airport.

Several Italian consortia are also thought to be lining up for the bid. One brings together the Benetton clothing group and the Pirelli tyre manufacturer.

Another brings together SEA, the Milan airport authority, and Mediobanca, the Milan-based merchant bank. Amsterdam's Schiphol airport is thought to be interested in a separate tender.

One of the issues facing any bidder is that, under new Italian takeover rules, the winner would have to be ready to buy the entire stock of shares in ADR, if offered. This is worth around 21.65bn at current prices.

The sale of the stake in ADR is one of a series of privatisations the government has pledged to carry out this year and which are aimed at raising around 115,000bn (€10.2bn, \$8.6bn) for the Treasury.

The Treasury must meet this target if it is to come anywhere near achieving its aim of cutting Italy's national debt to 107 per cent of gross domestic product by the end of 2001.

The government aims to sell its 57 per cent stake in Autostrade, the state-run motorway network later this year.

It plans to sell more of its remaining stake in Alitalia, the Italian national carrier. IRI still holds some 53 per cent of the national airline.

weapons programme. Officials in Moscow reject US and Israeli suggestions that Iran is a nuclear threshold state, saying it would take the country more than 10 years to develop such a weapons programme.

The Russian foreign ministry was reacting to the US Trade Department's recent publication of a list of seven companies and three institutes allegedly connected with Iran's nuclear programme.

The US administration has said it will cut off links and financial assistance to these organisations - although this is expected to have little practical effect.

Relations between Moscow and Washington have become increasingly frosty in recent weeks following disputes over Iran, Iraq, Kosovo, and possible revisions to the 1972 Anti-Ballistic Missile treaty. But both countries have stressed that these disputes reflect disagreements between partners rather than a rupture of relations.

But Moscow's objections to the US administration's stance will be tempered by the need to persuade Washington to extend further financial support to Russia.

Dutch to overhaul law on part-time workers

By Gordon Grubb in The Hague

A Dutch law aimed at protecting part-time and contract workers is to be overhauled only weeks after it came into force because employers have been terminating temporary posts to avoid the extra burdens imposed by the legislation.

"We will evaluate it sooner than we were intending to," Annemarie Jorritsma, economics minister, said in an interview. "It was not the intention to have less part-time work."

Schools shed supply teachers and hospitals crossed relief nurses off their books when the Flexibility and Security Act entered effect at the beginning of the year. The upheaval has even reached professional football, where players are for the first time being offered a collective wage and conditions agreement by clubs anxious to circumvent the impact of the law.

Among its provisions is that after someone serves three temporary contracts and is offered further work within three months by the same employer, he or she is entitled to join the staff. Those employed only on call, but brought in for at least 20 hours a month for three months in a row, gain in most cases the right to a fixed contract.

According to Hans Blankert, chairman of the VNO-NCW employers' federation, the main problem came at temporary employment agencies, which were obliged to offer contracts to those whose services they regularly hired out.

The Netherlands has the world's highest proportion of temps in the workforce.

But Mr Blankert insisted yesterday that these and other difficulties had largely been resolved. The law was the result of a joint proposal by the VNO-NCW and the FNV, the country's main labour grouping. The union side held out for most work records to be taken into account, however, rather than starting each score-sheet afresh at New Year. This brought the fury of lay offs by managements worried they might unwittingly be taking on permanent staff.

For their part, employers gained the ability to renew fixed-term contracts without having to apply to a labour office or industrial court for exemptions from the protective provisions of standard Dutch labour law.

Mrs Jorritsma, saying the intention of any revisions would be to make the new act less complex, added that unions and employers were obliged to implement it in practice as well as they could. The review should be completed by the summer.

"Unions in the meantime have also become convinced that flexibility in the economy is one of the conditions we need to compete within Europe," she said.

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CONSULTATION

Paris Rive Gauche
VILLE DE PARIS

The City of Paris and SEMAPA
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For a 40,000 sq.m. buildable area office property development
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This invitation is for the attention of developers and investors.

Interested parties will be able to obtain consultation
documents at SEMAPA from March 3, 1999, on presentation
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Candidates should return their proposals by 6 p.m.
on 16 April 1999 at the latest.

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MAIRIE DE PARIS

CURRENCY CRISIS FINANCE MINISTER CONFIDENT THAT INFLATIONARY SURGE WILL BE CONTROLLED

Contraction in Brazil may reach 4%

By Geoff Dyer in Brasilia and John Barham in São Paulo

The Brazilian economy will contract by 3-4 per cent this year as a result of the country's currency crisis, according to Pedro Malan, finance minister.

Mr Malan said the government would announce a medium-term inflation target once it had renegotiated the terms of its \$4.5bn financing package with the International Monetary Fund, which would be concluded "over the next few days".

In an interview yesterday he said he was confident the government would be able to control the inflationary surge caused by the recent devaluation, which would allow interest rates to fall sharply and strong growth to resume next year.

Brazil let its currency float on January 15, abandoning a system of crawling trading bands which had been the anchor of its successful five-year anti-inflationary plan. By mid-afternoon yesterday the currency was trading at \$2.05 to the dollar, a

devaluation of 41 per cent.

The change in currency regime has forced the government to revise the agreement it signed with the IMF in November, which had been the basis of the bail-out package. In an attempt to re-establish its battered credibility in international markets, the government has raised nominal interest rates to 39 per cent and is preparing a new round of budget cuts.

Mr Malan said inflation would rise over the next few months, but by the fourth

quarter of the year the monthly rate would have fallen to 0.5-0.7 per cent, equivalent to an annual rate of about 7 per cent.

Countries such as the US and the UK had been able to control temporary spikes in inflation through appropriate monetary and fiscal policy, he said.

"The government is committed to preventing inflation coming back and it has the support of society for this."

The government had achieved the target agreed

with the IMF for a nominal budget deficit in 1998, including states and state-owned companies, of 8.1 per cent of gross domestic product.

Although the official figures had yet to be released, as a result of new budget cuts, the government would record this year a primary budget surplus - before interest payments - of "slightly more than" 3 per cent of GDP.

"That is a serious fiscal effort in a country that is experiencing negative growth," Mr Malan said.

Interest rates, the subject of increasing political dispute, would fall sharply if efforts to cut public spending were implemented.

Meanwhile, Demosthenes Madureira Pinho Neto, acting central bank president, said Brazil intended to borrow from international capital markets as soon as "things improve" after an IMF agreement was in place. He did not say how much Brazil hoped to raise, although the markets expect the country will try to borrow \$4bn-\$5bn.

NEWS DIGEST

MURDER SUSPECT

Israeli bar on extradition set to strain ties with US

Janet Reno, US attorney-general, said she was "disappointed" and warned there was "no safe place to hide" after Israel's Supreme Court yesterday ruled against extraditing a teenage murder suspect to the US. Samuel Sheinbein, 18, will instead stand trial in Israel for allegedly killing Alfred Yello in Montgomery County, Maryland in September 1997. His dismembered body was found burned and dumped in a garage days after Mr Sheinbein, a US citizen, had sought refuge in Israel.

Although there is an extradition agreement between Israel and the US, Israeli citizens are exempt from extradition following a law passed by the late Menachem Begin, who as prime minister believed Jews should not be handed over to gentiles for judgment.

Mr Sheinbein was able to claim Israeli citizenship through his Jewish father, who was born in Israel but settled in the US in the 1950s. Despite this claim, an Israeli lower court last year ruled that since Mr Sheinbein had never lived in Israel he could be extradited. His defence lawyers appealed to the Supreme Court.

Yesterday's decision is likely to strain US-Israeli relations since Madeleine Albright, US secretary of state, and Mrs Reno had personally urged Israel to hand over Mr Sheinbein. Judy Dempsey, Jerusalem

US ECONOMY

Orders maintain momentum

The US economy maintained its momentum last month as orders for aircraft and cars boosted durable goods orders by 3.9 per cent over an already strong December, according to the Commerce Department.

In a separate report, the department said preliminary data showed a 6.7 per cent drop in US steel imports in January. This reflects the impact of anti-dumping complaints filed by the US steel industry and union against Japan, Russia and Brazil.

Meanwhile, there were sufficient signs of moderation in the orders report to ward off fears of an overheating economy, which would require the Federal Reserve to raise interest rates. The aircraft category is notoriously volatile. The Economic Data Bulletin, released by Morgan Stanley Dean Witter, noted that the surge in aircraft orders reported by Boeing in December were "finally materialising" in the orders report.

"The underlying pace of activity softened in January with declines in metals and industrial machinery more than offsetting gains in autos and electrical equipment," it said.

Two other reports demonstrated the health of the economy. Sales of existing homes climbed to a record seasonally adjusted annual rate of 5.07m units in January, and the number of workers filing new claims for unemployment benefits fell last week. Nancy Dunne, Washington

MICROSOFT TRIAL

Sun Microsystems accused

Microsoft yesterday attempted to discredit evidence from Sun Microsystems by accusing its software rival of seeking to attack Microsoft's Windows operating system. Bob Muglia, Microsoft's senior vice-president for applications, told the four-month-old monopoly trial in Washington that Sun planned to use its Java technology to make Windows obsolete.

In written evidence released yesterday, he accused Sun of planning to dominate the computer industry. "Sun first planned to popularise its Java programming language and later use that technology as a 'Trojan horse' to ultimately control all aspects of computing, both hardware and software," he said.

Mr Muglia's evidence, while highly critical of its rival, appears to confirm earlier evidence from Sun, which suggested that Microsoft feared its dominance would be undermined by Java. In December James Gosling, vice-president of Sun, accused Microsoft of attempting to block Java by developing its own "polluted" version of the software. Richard Wolff, Washington

On the web today

- Ecuador president struggles to fulfil promise
- Miami split over preserving its past or parking its cars
- Mexico fears rough ride over drugs

<http://www.ft.com/americas>

NOMINATION CAMPAIGN DARLING OF THE ISOLATIONISTS

Buchanan back to run for president

By Deborah McGregor in Washington

Just one day after taking leave from CNN, Patrick Buchanan wanted to make sure everyone knew he was back - and about to run for president for a third time.

"Buchanan to Address the Great Betrayal of Weirton Steel," blared the press release yesterday from the 60-year-old television commentator, whose "America First" rhetoric has made him the darling of isolationists.

Mr Buchanan will kick off his latest campaign for the Republican presidential nomination in tiny Weirton, West Virginia on Monday. The site was carefully chosen. Weirton (population 22,000), is where 4,400 workers risk losing their jobs if the town's steel plant shuts down.

Hard times in the US steel industry have already resulted in losses and layoffs at Weirton Steel, the nation's eighth-largest steel producer.

Mr Buchanan blames the global economy for Weirton's woes, making it an ideal place to launch his message that foreign imports

are damaging the American economy and sacrificing US workers to globalisation.

"The global economy's apologists in Washington don't like to talk about the Weirtons of America, they would have us believe all Americans are floating on a wave of Wall Street prosperity," Mr Buchanan wrote in

He has proved a shrewd election campaigner who is known to be liable to wreak political havoc

a recent fund-raising letter.

"This fiction must be maintained for them to justify the scores of billions of American tax dollars regularly doled out to salvage the wrong-headed investments made in places like Mexico, Russia and Indonesia."

In a year when the US trade deficit is expected to worsen, Mr Buchanan's message is bound to fall on fa-

vorable ground. It is likely to fuel protectionist sentiment in Congress and many manufacturing towns across the US heartland.

Mr Buchanan's pitch will pose dilemmas for other Republican contenders. He never comes close to winning the nomination, but has proved a shrewd campaigner who can wreak political havoc in unexpected ways.

He dealt a blow to the candidacy of George Bush in 1992 when he attracted over 37 per cent of the vote in the New Hampshire primary. Four years later, he staggered Bob Dole's campaign by winning in the same state, though Mr Dole recovered to win the nomination.

Mr Buchanan will try to recapture his old momentum by travelling to Manchester, New Hampshire, next Tuesday. There, he will expand on his anti-free-trade, anti-abortion, pro-immigration controls, pro-isolationist-for-foreign-policy views before launching a campaign in other primary states.

"This time, he is hampered by an absence of his former campaign brains trust. Many of his former aides have joined the camps of rivals



Buchanan: scourge of the party establishment

such as Steve Forbes and Gary Bauer. But that suggests something about the desire of other candidates to absorb some of the zeal, if not the full menu, of Mr Buchanan's past campaigns.

In part, Mr Buchanan is said to be motivated by his

belief that neither George W. Bush nor Elizabeth Dole yet command a solid base of support within the party. At the least, he seems intent on playing the scourge of the party establishment, a role for which he is well-qualified, to party elders' dismay.

High-tech groups respond on accounting

By Roger Taylor in San Francisco

The US technology industry is moving to establish its own set of accounting standards in response to a clamp-down on merger accounting by the Securities and Exchange Commission and the Financial Accounting Standards Board.

The move comes in response to the vote this week by the FASB, which sets accounting standards in the US, to stop technology companies from writing off much of the cost of acquiring businesses as a one-off

exceptional charge to cover "in-process research and development".

Instead, the full cost of such acquisitions would have to be amortised and deducted from earnings over a number of years. The move, which follows a campaign by the SEC to reduce these write-offs, has prompted protests from the high technology industry which believes the new rules will create the misguided impression among investors that companies' earnings are slowing.

This in turn could undermine the high share prices of

many high-technology companies and could result in a temporary slow-down in consolidation in the technology industry.

Chip Vetter, head of mergers and acquisitions at BancBoston Robertson Stephens, said: "There will be a near-term reluctance on the part of boards to enter into transactions until it is clear that investors can see through the accounting changes."

He said investors were already adapting to the changes. Increasingly BancBoston Robertson Stephens analysts were looking at cash earnings, which

exclude the amortisation of intangible assets, rather than the financial earnings, he said.

Yesterday the Software and Information Industry Association, the leading trade association, said that it wanted to establish its own set of accounting rules to complement the existing Generally Accepted Accounting Principles. These would allow high-technology companies to present a second set of results which conformed to a standard but which excluding amortised acquisition costs.

The split between the tech-

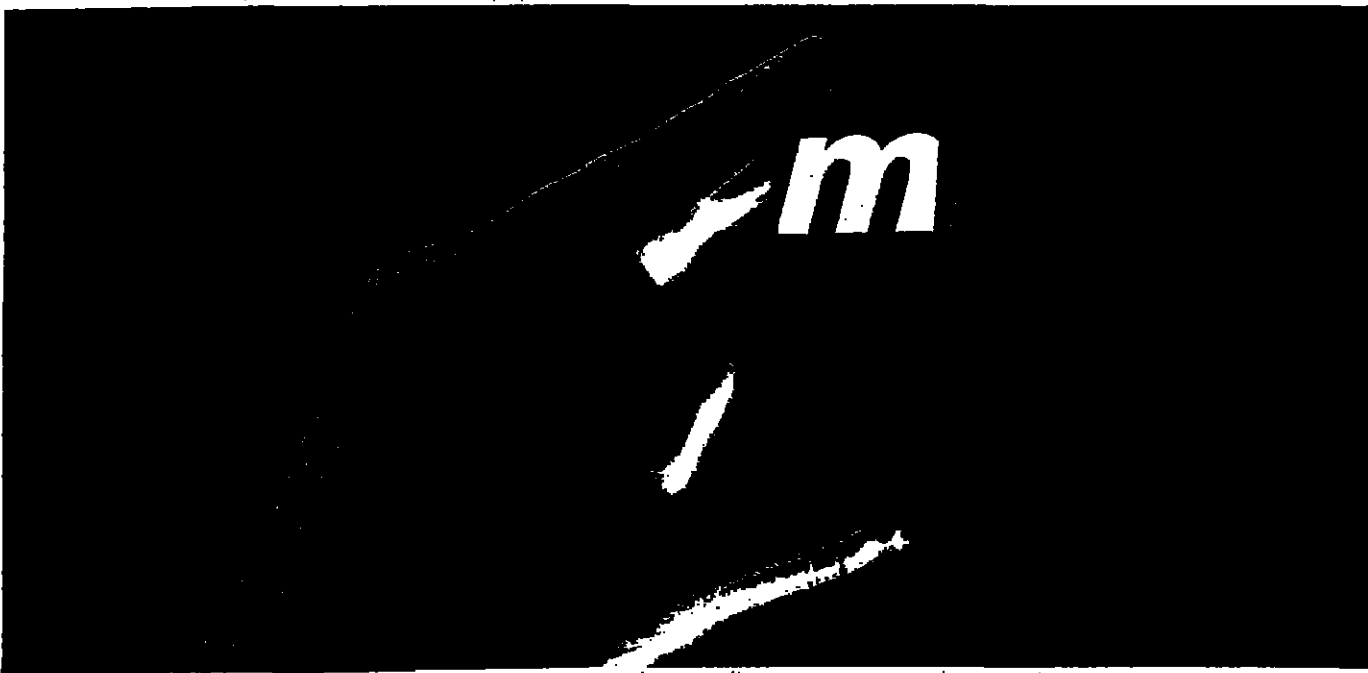
nology industry and the accounting regulators marks the increasingly difficult task of setting financial reporting standards that can be used to compare traditional industrial companies with the newer information and biotechnology businesses which consists largely of intangible assets.

Accounting standards are intended to benefit investors and ensure that they get a true picture of a company's financial performance. However, many investors in the technology industry believe that the proposed new rules will have the opposite effect.

Mr Vetter claimed the ideas of the FASB were absurd when applied to companies "built on intellectual capital". Leading companies in the technology industry, including Cisco Systems and Computer Associates have voiced their unease at the changing accounting rules.

However, there is widespread concern that worse is to come. The currently proposed rule changes would not affect the largest corporate deals which tend to be treated as mergers, but regulators are now said to be considering treating even these as acquisitions.

Mannesmann in 1998



Net profit doubled
Telecommunications successfully on course for Europe
Further significant improvement in Engineering and Automotive

- Result of ordinary activities increased by approx. 50% to about € 1.4 bn
- Return on gross operating assets raised to more than 13%
- Net profit doubled to approx. € 630 m (1997: € 312 m)
- Increased dividend of DM 1.20 (€ 0.61) proposed after DM 1.00 (€ 0.51) in previous year; increased dividend for the fifth consecutive year
- Investment volume again high at € 3.4 bn

The increase in earnings is due to the significantly improved performance of the Engineering, Automotive and Telecommunications sectors. Mannesmann increased the return on gross operating assets to more than 13% (1997: 10.3%).

The Board of Management intends to increase the dividend to € 239 m; this corresponds to a dividend of € 0.61 or DM 1.20 per share. This is the fifth dividend increase in succession.

At € 19.0 bn, sales at Mannesmann were below last year's figures due to divestitures related to portfolio optimisation. On a comparable basis, sales rose by 14%. At the end of 1998, Mannesmann had approx. 116,200 employees (-4%). Here, too, the portfolio changes made themselves felt. Investments were again high at about € 3.4 bn.

Indicators	Jan.-Dec. 1998	Jan.-Dec. 1997
Sales	€m 19,047	19,989
Engineering	€m 6,625	8,325
Automotive	€m 5,465	4,243
Telecommunications	€m 4,656	3,472
Tubes	€m 2,356	3,445
Employees (31 Dec.)	116,176	120,859
Investments	€m 3,394	4,531

Details are contained in our Report to Shareholders, which we will be pleased to send to you on request.

Mannesmann - Engineering Automotive Telecommunications Tubes

Mannesmann Aktiengesellschaft
Presse und Information
Postfach 10 36 41
D-40027 Düsseldorf
Fax (+49/2 11) 8 20 15 89
www.mannesmann.com

Mannesmann

ASIA-PACIFIC

China makes threat of missile transfer

By James Kynge in Beijing

Beijing made a veiled threat yesterday to transfer missile technology to unspecified third countries if the US persisted with a controversial plan to provide a missile defence shield for some of China's neighbours, including Taiwan.

China also launched a strong verbal attack on the US, saying that Washington's decision this week to block the sale of a satellite to a Chinese-led corporation would have a negative effect on trade and economic co-operation. Beijing's reaction to the possibility that Taiwan, China's rival since 1949, may be included in a US-backed Theatre Missile Defence (TMD) system has been uncompromising. Officials said a TMD shield for Taiwan, Japan and South Korea would be seen as the start of a cold war policy of containment against China by the US, and could accelerate the regional arms build-up.

It could also be interpreted as US recognition for a separate Taiwanese identity, a

senior Chinese official said. Beijing maintains a long-standing threat to use military force to prevent Taiwan becoming independent.

The official, who declined to be identified, said that the installation of a US-backed theatre missile defence system in Asia would constitute a US violation of the Missile Technology Control Regime (MTCR), a treaty which aims to curb the spread of sensitive missile technology.

"Since the US can lead the way in breaking this (MTCR) regime, other countries have an absolute right not to follow the rules of this regime and undertake co-operation on missiles and missile technology with third countries," the official said.

Although China has not signed the MTCR, it has agreed to abide by its principles. In what was hailed as an important sign of progress at last year's US-China summit, Beijing said it would "study" according to the regime.

Washington has long been concerned that Beijing could

supply missile technology to its ally, Pakistan, thereby fuelling an already fierce arms race between Pakistan and South Asia's other nuclear power, India. China has in the past also made a link between US promises to decrease weapons transfers to Taiwan and a corresponding undertaking by Beijing against arms sales to Iran.

The deterioration in US-China ties provides a stiff challenge for Madeleine Albright, US secretary of state, due to visit Beijing over the weekend to discuss security, and diplomatic issues.

Diplomats said there was a danger that animosity over TMD and the blocked satellite sale could undermine the fragile hope that exists for a deal on China's admission into the World Trade Organisation when Zhu Rongji, the Chinese premier, visits Washington in April.

Both sides have recently made upbeat comments on the possibility of a WTO deal for China, even though the commercial hurdles to such an agreement remain forbidding.

MEETING WITH AUSTRALIANS WILLINGNESS TO SUPPORT SETTING UP A NEW ADMINISTRATION

Lisbon offers to fund East Timor

By Owen Robinson in Sydney and Peter Wise in Lisbon

Portugal has offered to finance East Timor, funding an annual budget estimated at more than \$100m, as its former colony moves towards a decision on autonomy or full independence from Indonesia.

Portugal, recognised by the United Nations as the administering power, said yesterday it would meet all its responsibilities to East Timor, both political and financial, as part of a UN co-ordinated agreement on the future of the territory.

The offer came before a

meeting between the Portuguese and Australian foreign ministers in Portugal tomorrow that will focus on ensuring a peaceful transition to autonomy or independence.

The territory was invaded and annexed by Indonesia after the Portuguese colonial administration withdrew amid civil strife in 1975. Human rights organisations estimate that more than 200,000 East Timorese have died since the invasion.

Portugal has also set up an inter-ministerial work group to examine East Timor's economic needs and provide support in setting up the administrative framework of

an independent state or autonomous region.

Portuguese officials said they hoped Indonesia, Australia and the European Union would contribute support, including finance, for East Timor's transition. But details of when Portugal's financial commitment will begin or how long it will last have not been established.

Portugal's offer appeared partly designed as a response to Indonesian claims that it had developed East Timor more in two decades than Portugal had done in hundreds of years of colonial rule.

A Portuguese official said

Indonesia's budget for East Timor was surprisingly small and appeared to belie Indonesia's claims of large-scale development spending.

Diplomats also saw the move partly as a response to John Howard, the Australian prime minister, who has expressed concerns about the potential heavy costs for Australia - the closest country to East Timor - of the transition.

Portugal unsuccessfully urged Australia, the only western government to have recognised Indonesia's annexation of East Timor, for signing a 1989 treaty with Indonesia to explore offshore

oil resources in the Timor Gap.

"We are prepared to take a leading role in the transition, and accept all responsibilities necessary," said Jaime Gama, Portugal's foreign minister.

"But we will act only in a UN context. This is not a bilateral matter between Portugal and Indonesia, but an issue between Indonesia and the international community."

Australia has urged Indonesia to stage a gradual, planned withdrawal rather than an alternative proposal to grant full independence by next January.

Portugal endeavours to atone for its colonial sins

Ceding Macao and helping East Timor offers Lisbon a chance to end its empire with dignity

Portugal's endeavour to bring 500 years of empire to a close by averting trauma and violence in East Timor and Macao is suffused with a sense of atonement for colonial sins of the past.

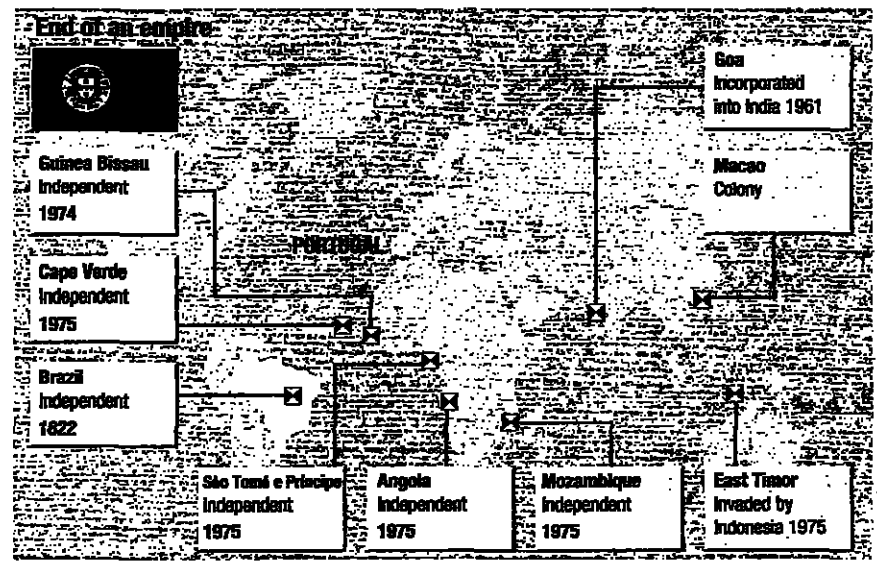
Relinquishing Macao, which returns to China in December, and helping the East Timorese determine their future, is providing an opportunity for a new generation of politicians to redress Portugal's exploitation of its overseas possessions and its chaotic exit from most.

"A feeling of remorse for the transgressions of earlier generations is apparent in Portugal's efforts to bring its colonial history to dignified conclusion," said a European diplomat in Lisbon.

Portugal expects no benefits from its support for East Timor's self-determination, including a commitment to finance the territory if it chooses independence from Indonesia, the government says. The only dividend it hopes for is to keep Portuguese culture alive.

Leaving Macao, settled by the Portuguese 450 years ago and the last European colonial possession in Asia, is not the end of an era but "the beginning of new chapter in relations between China and Portugal," says President Jorge Sampaio.

This view contrasts with the outlook of the authoritarian Salazar regime, when schoolbooks showed an outline of Portuguese empire (East Timor, Macao and five African nations, including Angola and Mozambique)



superimposed on a map of Europe, impressing on children that the colonies made Portugal great.

The empire also included Brazil until 1822 and the Indian state of Goa until 1961.

But Salazar's view of overseas possessions as suppliers of cheap raw materials, captive markets for exports and a source of political grandeur fuelled opposition by young leftwing opponents, many of whom, like President Sampaio, are now Portugal's leaders.

The long colonial wars Portugal fought in Africa led to the overthrow of the country's dictatorship by a group of young army captains in 1974. The coup precipitated a hasty withdrawal that left several former colonies beset by conflict.

Angola has fallen back into armed conflict after a brief respite from two decades of civil war. Mozambique suffered 18 years of guerrilla war before a peace agreement in 1992.

Guinea-Bissau is torn by conflict and, like Mozambique, remains one of the world's poorest countries.

In Asia, Portugal is understood to have offered Macao back to China after the 1974 coup but was asked to wait. Indonesia invaded East Timor in 1975, after the Portuguese colonial administration withdrew amid civil strife, and later annexed the territory.

Portugal, still recognised by the United Nations as the administering power, has been at the forefront of efforts to win self-determination for the East Timorese and end human rights abuses by the Indonesian military.

But Indonesia used Portugal's abandoning of East Timor to "anarchy and ruin" to justify its invasion and has accused Portugal of exacerbating problems in the territory by failing to show evidence of political will to reach a solution.

"For us, there is no more East Timor problem, inter-

nally," Ali Alatas, Indonesia's foreign minister, said. "But externally, we have to admit the problem is still there, because Portugal makes it a problem."

Indonesians complain of East Timorese "ingratitude" for wanting to secede. "If it was up to me I'd get rid of East Timor tomorrow," one official said. "It's such a headache."

No one in Jakarta talks about the graves the Indonesians will leave behind. Human rights organisations estimate that over 200,000 people have died, from a population of 650,000 at the time of the invasion, because of abuses by the military, guerrilla warfare, starvation and disease during 24 years of Indonesian occupation.

Kept in the dark about army abuses by a censored press, few Indonesians are aware of the extent to which East Timorese resent their occupation.

Diplomats say the sudden change of tack by Indonesia over East Timor's future is

more a reaction to foreign pressure than to an awareness of the intractable nature of the problem.

Portugal's main concern in Asia is to bring its empire to a close without the trauma that marked its withdrawal from other overseas possessions.

"We have had so many more years to prepare for the return of Macao than we had to handle de-colonisation in Africa," said a government official. "It things go badly, we have only ourselves to blame."

Wang Yingfan, China's vice foreign minister, said the handover would bring a "new dynamism" to Sino-Portuguese relations and that Macao would act as a "bridge" between Portugal and the European Union.

But he acknowledged unspecified areas of tension between Lisbon and Beijing. These include, above all, security.

Increasing gang violence has chased away Macao's main sources of revenue: tourists and gamblers. Its economic woes include rising unemployment, a falling property market and mothballed infrastructure projects.

The transition in Macao, like Portugal's withdrawal from Africa, will again lead to an exodus. Portugal, a relatively poor country of less than 10m, successfully absorbed about 750,000 settlers who fled from Angola and Mozambique in 1975.

Almost all the Eurasian population of Macao, known as Macanese and estimated at about 3 per cent of the population of 425,000, are expected to leave before China resumes control. As reported by Peter Wise in Lisbon, Sander Thomas in Jakarta and Louise Lucas in Hong Kong

Bank of Japan ignores calls for big boost

By Gillian Tett in Tokyo

The Bank of Japan's policy board yesterday decided to leave monetary policy unchanged in an apparent rejection of calls for the bank to take radical action to boost the economy.

Senior bank officials indicated that it did not plan to raise purchases of Japanese government bonds, in an anti-deflationary move, but would instead continue to guide short-term market interest rates as low as possible.

The announcement may disappoint some of Japan's trading partners, notably the US, which is pressing Tokyo to consider using monetary policy to boost demand.

Lawrence Summers, US deputy Treasury secretary, is likely to raise pressure on the bank to consider new measures when he meets government officials in Tokyo today. He is concluding a tour of Asian countries, which is due to end in Tokyo over the weekend.

The timing of Mr Summers' visit is particularly important since Japanese politicians and senior bureaucrats have recently started to urge the bank to curb the surge in long-term interest rates that occurred earlier this year.

The US has pointedly refrained from spelling out any precise course of action it wishes to see. However, it has warned that unless Japan to take new measures to boost domestic demand, trade friction could rise.

"Japan and Europe both have critical roles to play in achieving broad-based growth in the major industrial economies and helping curb the development of destabilising global imbalances," Mr Summers told the American Chamber of Commerce in Seoul yesterday. "With the Japanese economic situation still very troubling, it is [as] important as it has ever been for the government to take effective steps to achieve its goal of strong domestic demand-led growth."

Although the Japanese government insists the economy will grow by at least 0.5 per cent in fiscal 1999, some senior US officials privately hold a gloomier prognosis.

The scope for Japanese monetary policy measures was a key focus for discussion at the meeting of Group of Seven officials in Bonn last weekend. But Masaru Hayami, bank governor, has hitherto strongly opposed suggestions that the bank should raise its purchases of JGBs or deliberately create inflation. And western central bank officials admit that

easing monetary policy further could be technically difficult. Although the bank let overnight market interest rates fall to a record low of 0.08 per cent last week, this move partly backfired because investors withdrew liquidity from these markets.

However, some western central banks are urging the Bank of Japan to consider introducing targets for inflation or money supply, or even make limited additional purchases of JGBs in secondary markets. And Eisuke Sakakibara, vice-minister of finance who has enjoyed a strong relationship with Mr Summers in the past, claims that the bank is now determined to take "dramatic" steps to boost the economy.

US Nippon Credit Bank, the nationalised Japanese bank, yesterday claimed the Ministry of Finance had misled private financial companies about the scale of NCB's bad loans two years ago.

The ministry's calculations, which severely underestimated the scale of bad loans, were given to life assurance companies and banks to persuade them to contribute funds to a bail-out of the bank.

The revelation is likely to trigger further anger among these life assurance companies and banks about the manner in which they were forced to contribute around ¥210bn (\$1.7bn) worth of funds to rescue NCB in 1997. They argue that the ministry's decision to nationalise NCB last year broke earlier pledges that the ministry had made to the industry.

The dispute marks another deeply embarrassing debacle for the ministry, which is facing growing criticism within Japan for its handling of the banking sector. And with some life assurance companies and banks now threatening to sue the ministry, the battle also highlights the degree to which some traditional loyalties are fragmenting in Japan under the pressure of financial deregulation.

The ministry has tried to claim that the main reason for the underestimates was that the NCB management had been concealing the bad loans. NCB said in 1997 that the total scale of its problem loans was ¥700bn, but later revealed that the figure for loans to borrowers requiring careful monitoring was around ¥1,130bn.

However, Shigeoki Togo, NCB president, told parliament yesterday that the ministry had produced the earlier bad loan figures. "The figure of ¥700bn we reached by adding up the figures given to us by ministry inspectors," he said.

LDP debates military strikes strategy

By Michio Nakamoto in Tokyo

Japan's ruling Liberal Democratic party is considering permitting pre-emptive strikes if there is a threat of military action by another country against Japan.

The LDP's crisis management project team, headed by former defence agency chief Fukushiro Nukaga, is looking into the possibility of changing legislation to allow Japan's Self-Defence Forces (SDF) greater flexibility and speed in responding to armed attacks.

The SDF's ability to take pre-emptive action against the threat of an armed attack is crucial in defending the country against a possible missile attack, believes Kenzo Yoneda, a leading member of the project team.

The move would be a radical step away from the government's long-held interpretation of Japan's right to self-defence. It comes as Japan's parliament prepares to implement legislation that would enhance Japan's military role "in situations in areas surrounding Japan" and is likely to cause concern to Japan's neighbours, suspicious of a revival in Japanese military aggression.

According to the common interpretation of the right to self-defence, Japan can resort to military action in self-defence only when there is an armed attack on Japan and no other appropriate means to deal with such an invasion exists.

However, "how much meaning is there to retaliation after the nation and the people have suffered major damage?" asks Mr Yoneda. North Korean missiles are capable of reaching Japanese territory within six to 10 minutes of being launched. The communist country is believed to have a special force of 80,000 troops which could attack Japan's nuclear power plants or conduct terrorist activities in the country, Mr Yoneda says.

Concern about infiltration of North Korean agents was fuelled after the bodies of North Korean soldiers were washed up on Japan's coast last year.

Mr Yoneda is calling for revisions to the SDF Law to allow the SDF to act against intrusions into Japanese waters and land. Under current legislation, the SDF is only allowed to act against violations of airspace.

"The starting point of Japan's post-war crisis management was to try to act as much as possible to avoid action by the SDF," says Mr Yoneda. But since the launch of the North Korean missile last August, "it became very clear that that was not sufficient," he says.

The LDP project team will compile a report by the end of March and hopes to implement legislation based on it. However, the public is still wary of any divergence from the country's pacifist stance. "There will be political considerations to be taken into account," Mr Yoneda says.

China's budget 'supervised'

By James Kynge in Beijing

China's National People's Congress, or parliament, has established a sub-committee to "supervise" the draft budget before it is adopted at the annual full session of the NPC which this year starts in March.

The move is not expected to have much more than a symbolic importance this year but the establishment of such a committee is one of several signs that China's leaders are serious about upgrading the role of the

NPC, which has often been maligned as a "rubber-stamp" forum for Communist party directives.

The sub-committee will be headed by Guo Zhenqian, who is one of six vice-chairmen in the NPC's financial and economic committee.

"Past examinations of the budget have been mostly procedural, and the new organisation will make the supervisory action more substantial," the official Xinhua news agency said.

Li Peng, chairman of the NPC, has been keen to

enhance the body's role, and recently called upon NPC delegates to start supervising the work of local law courts. To illustrate his point he dropped in "unexpectedly" to listen to a trial in the southern province of Fujian recently.

Under the constitution, the NPC is supposed to supervise the work of the Supreme People's Court and Supreme People's Procuratorate, but in practice it has rarely concerned itself with day-to-day legal cases.

Jakarta lowers targets on troubled banks

By Sander Thomas in Jakarta

Indonesia's parliament is expected today to clear the way for a combination of closures and recapitalisations of troubled banks, but the government is lowering its own tough targets and will opt to nationalise some instead tomorrow.

Parliamentary factions agreed earlier this week on the state budget for the fiscal year that starts April 1, including an Rp17,000bn (\$1.9bn) allotment for payment of interest on government bonds that are to be injected into banks at risk of going illiquid. Analysts had expected some 30 banks would be closed tomorrow and up to 70 listed for recapitalisation, but in a last-minute change of policy, central bank officials introduced nationalisation as an alternative.

Recapitalisation of the banking sector is needed to compensate for collapsing loan portfolios and a negative spread on interest - banks borrowing at higher

rates than they receive. This has left many banks unable to lend or meet trade obligations, putting a severe drain on the real sector.

The budget approval enables the government to calculate how much interest it can pay on the bonds and how much it can spend on liquidation of sick banks, which is costly as it earlier guaranteed all deposits and other liabilities. Nationalisation, analysts suggest, would mean little more than delaying a decision on some of the many banks that lack cash to inject their 30 per cent share of the recapitalisation.

"I think a lot of compromises will be made," one western banker said. "The doubtful cases will be given some more time."

Tomorrow's announcement will end months of deadlock that has left banks bleeding and therefore raised the cost of a bail-out to the point where many banking experts estimate that the Rp253,000bn the government expects to spend will fall far short of what is needed.

"It will probably cost about Rp400,000bn by the time they get around to it," said Liny Halim, banking analyst with ING Barings. "But the more they delay the recapitalisation, the more costly it will be."

In theory, only banks with capital adequacy ratios between minus 25 per cent and plus 4 per cent are eligible for recapitalisation - if they present a credible business plan, deposit their 20 per cent share of the capital injection, pay back central bank loans and retrieve loans improperly issued to affiliated parties.

The interest rate on the bonds needs to be competitive with central bank paper rates, stubbornly high at 37 per cent, for banks to be able to sell them and thereby improve cash flow. The government expects to spend Rp34,000bn on bond interest and bank liquidation in the coming fiscal year, of which Rp17,000bn will come from the budget, but analysts say that would allow for rates of less than 25 per cent.

Hanoi to let dong depreciate

By Jonathan Birchall in Hanoi

Vietnam is to let its non-convertible currency, the dong, depreciate daily by up to 0.1 per cent against the US dollar, it was announced in Hanoi yesterday.

If the state bank chooses not to intervene, the move could in theory let the dong depreciate against the dollar by some 25 per cent over the next 12 months.

The bank had formerly been following a strategy of stepped devaluations; three such reductions in the official rate since June 1997 have brought the value of the dong down by about 18 per cent against the dollar, with the last such devaluation in August.

But the dong has still appreciated by about 25 per cent over the same period against other South-east Asian currencies, raising concerns over Vietnam's longer-term competitiveness as exporter and destination for foreign investment.

The Vietnamese central bank has been seeking to avoid sudden devaluations which could further erode public confidence in the currency and the country's banking system.

Despite the pattern of depreciation against the dollar, retail black market rates are currently near those officially available in the banks. The new system will let the dong trade against the dollar on the interbank market in a band of plus or minus 0.1 per cent of the official daily target rate set by the central bank.

The target rate for each day will be set by the prevailing interbank rate from the previous day, in effect letting the dong depreciate 0.1 per cent daily.

Singapore growth at 1.5%

By Sheila McNulty in Kuala Lumpur

Singapore's gross domestic product grew 1.5 per cent in 1998 over the previous year in what economists said was a very mild slowdown relative to the region, which remains gripped by economic crisis.

Finian Tan, deputy secretary of the Ministry of Trade and Industry, said it was too early to declare that the economy was recovering. The ministry said in announcing the data that it expected 1999 GDP to be minus 1 to plus 1 per cent.

The 1998 figure was within expectations and economists noted it was far better in Singapore's previous recession, when minus 1.8 per cent GDP was reported in 1995.

"It's the best in emerging Asia - except for Taiwan - among the smaller countries," said Neil Sakar, head of economic research at SG Securities in Singapore. But Kostas Panagiotou, senior economist at Kim Eng Securities in Singapore, said some of the domestic demand components of GDP fell by amounts comparable with those of the 1995-96 recession.

In the fourth quarter of 1998, domestic spending declined by 14.7 per cent year-on-year, driven by a 21.8 per cent year-on-year fall in investment and a 3.2 per cent year-on-year fall in private consumption spending. Some investment categories, such as transport equipment, fell by as much as 46.4 per cent year-on-year.

De-stocking intensified during the quarter, with falling inventories subtracting 5.9 percentage points from GDP growth.

FOREIGN & COLONIAL PORTFOLIOS FUND

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R.C. Luxembourg No. 625.570

NOTICE TO SHAREHOLDERS

The Board of Directors has approved the payment of a dividend of 0.2 GBP per share on the registered shares of the FOREIGN & COLONIAL PORTFOLIOS FUND - STERLING BETA FUND as follows:

Record date: 25th February, 1999
Ex-dividend: 26th February, 1999
Payment date: 26th March, 1999

Luxembourg, February 23, 1999

150 200 300 400 500 600 700 800 900 1000

INTERNATIONAL

Iran's reformers put their hopes in the votes of women and the young

Today's local elections will be a test of public support for President Khatami's battle against the clerical establishment.
Robin Allen reports

Iranian President Mohammad Khatami's government is trying to galvanise support from women voters and some 15m young Iranians to win strong endorsement of its reformist policies when the country votes today in the first-ever nationwide local elections.

About half the 63m population is eligible to vote. Two-thirds of these are women and voters under 30. Iranians qualify to vote when they enter their 18th year.

Today's elections will be the most important test of public opinion since Mr Khatami was swept into office in a landslide mandate for political and social change two years ago by more than 70 per cent of voters on a turnout of more than 90 per cent.

Ranged against the reformists are the conservatives who form the largest group in the majlis (parliament), and hardline secular and clerical vested interests

who control most of the constitutional levers of power.

These include the clerical-dominated judiciary, state radio and television, the security and armed forces, vital unelected bodies such as the Council of Guardians and election supervisory boards, as well as the network of mosques and religious and state foundations across the country.

According to the interior ministry 327,000 candidates, of whom 5,000 are reckoned to be women, had registered by last Sunday's deadline, to contest about 200,000 local council seats. In the fiercest contest, in the capital, Tehran, 4,200 candidates are competing for 15 council seats.

Elected councillors will be responsible for appointing 720 mayors and starting the process of widening public participation in local social, economic, and political issues, which until now have been controlled from Tehran's centralised and conservative bureaucracy.

According to Bijan Khatami, editor of the monthly Iran Focus, the establishment of local councils, notably their power to raise local taxes, represents a first step of the government's plans to devolve fiscal and administrative power away from Tehran. This in turn would lead to the process of privatising the state entities that dominate Iran's economy and generate 85 per cent of the country's gross domestic product.

Mr Khatami was little known when, in 1995, the conservative-dominated parliament passed legislation allowing local elections to take place.

They did not at that time foresee any threat to their national power structure, which rested on a tripod of provincial governors, the majlis deputy, and the mosque, notably the Friday prayer leaders.

But with the formation of Mr Khatami's administration in August 1997, and in particular the arrival of Abdollah Nouri as Mr Khatami's first interior minister, all this changed.

Before his impeachment by the majlis last June, Mr Nouri had weakened the entire tripod by replacing all provincial governors with nominees more responsive to the national mood for reform, and by instructing their successors to undermine the influence of conservative deputies and the more obscurantist prayer leaders.

His successor, Mousavi Lari, has continued the process. The conservatives have fought back. First, they used control of state radio and television to ensure the government's message of the importance of the elections did not get through, notably to rural areas where people are more conservative anyway.

Second, supervision councils, appointed by the majlis, tried to weed out reformist candidates, particularly women, who they claimed did not demonstrate sufficient "practical belief" in Islam and in orthodox interpretation of the Islamic constitution. But government supporters responded. Sixteen different organisations

of reformists, technocrats, leftwing and student organisations formed an alliance for the elections. Last month the conservatives were forced to accept a compromise "arbitration panel" to take over the vetting of candidates; a compromise they have since made every effort to ignore.

This week a bitter dispute erupted in Tehran after conservatives tried to bar a dozen leading reformists from competing for some of Tehran's city council seats.

The conservatives' rear-



ELECTION FEVER An Iranian studies posters for Tehran city council elections due to take place today. Battle lines are drawn between conservatives and reformists. Reuters

guard action, however, has taken its toll. The number of candidates has fallen far short of the interior ministry's hopes, and "the whole electoral exercise", according to Safa Haeri, a Paris-based expert on Iran, "remains unknown to large segments of the public. Mr Khatami has not had enough time and his message has not been getting through."

The central question, however, according to Mr Khatami, is not which faction, reformist or conservative, wins the elections, but how financially independent future councils will be; and how, once established as new fixtures on an ancient body politic, they will fit into the country's complex and opaque power structure.

Most analysts agree that for all the sniping, the conservative opposition cannot put back the clock. Mr Khatami, in his 18 months of office, has already brought about a sea-change in Iranian attitudes and expectations, particularly among the young who never knew life under the Shah before 1979 and are neither enthused nor intimidated by the dogma of the hardliners.

For all his constitutional weakness, Mr Khatami by contrast, has a vision for his country to which the young can relate and in which they have put their hopes.

Nigeria seeks UK backing in debt talks

By Michael Holman, Africa Editor

Ismaila Usman, Nigeria's finance minister, yesterday sought Britain's backing for "substantial and highly concessional relief" on the country's estimated \$29bn external debt.

Speaking at a conference in London organised by the UK Department of Trade and Industry, the minister said the debt "constituted a huge burden for the country, particularly in the face of dwindling revenue owing to the depressed international crude-oil market".

Mr Usman, who was due to meet Gordon Brown, chancellor of the exchequer, yesterday, appealed to the UK government "to use its tremendous goodwill and influence to assist Nigeria".

Mr Usman told the conference there was "an urgent need for an understanding to be reached" with the Paris Club of official creditors. He said he expected a formal meeting "towards the end of April or some time in May".

Two thirds of Nigeria's external debt is owed to the Paris Club, including arrears of more than \$16bn. Britain is owed at least \$5bn.

The minister said he hoped the recent agreement on an IMF-monitored programme would be followed by an extended structural adjustment facility "before the end of the first half of 1999". The three-year loan is expected to be at least \$1bn. Mr Usman also said the

World Bank was convening an informal donors meeting for Nigeria in mid-March. Nigeria needs financial, technical, and other assistance in sectors such as water supply, health, education and infrastructural developments, he said.

Speaking at the same conference, Brian Wilson, British trade minister, emphasised Britain's "determination to help Nigeria push the transition (to civilian rule) through successfully".

But he made clear that this depended on further reform, "especially on transparency and corruption".

If Nigeria was to improve relations with the Paris Club, he said, the government would have to establish "a track record and improved macroeconomic policy under an IMF programme".

It was particularly important, added Mr Wilson, for Nigeria to "tackle all categories of arrears to Paris Club creditors ... (and demonstrate) comparability of treatment amongst creditors".

Britain was also "eagerly awaiting" more details on the privatisation programme.

Although the minister welcomed the release of political detainees by the military government, there was "obviously more to be done", he said, noting that a number of military personnel were still being held in connection with alleged coup plots in 1996 and 1998.

Harare editors stand firm

Editors of leading independent newspapers in Zimbabwe said yesterday they would resist any government attempt to muzzle the press, which President Robert Mugabe accuses of smearing and undermining his administration. Reuters reports from Harare.

After Willard Chivewe, the information secretary, told the press "to behave responsibly and in a patriotic manner" in their reporting, the editors said they would do their job professionally.

Four editors were summoned by Mr Chivewe on Tuesday to discuss the government's grievances with the private media.

They said they told the information secretary it was wrong for government officials or government editors to call the private press editors enemies of the state for simply doing their professional job.

"We made it clear to him, and we wish to restate, that we will continue to discharge our professional duties without fear or favour, as we have been doing," they said. Mr Mugabe has launched a

campaign against Zimbabwe's generally critical private press, accusing it of trashing his record and of conspiring with sections of the foreign press, some western governments and Zimbabwe's former white rulers to destabilise his 19-year-old government.

The press is focused on Mr Mugabe's handling of an economic crisis, his poor relations with donors and his government's attack on civil liberties, including the banning of strikes and the recent detention and alleged torture of two journalists by the army over a story alleging a coup plot.

The four editors said they were driven by a high sense of patriotism in campaigning for good governance and that some ministers felt they were doing an excellent job.

"We regard issues of corruption, abuse of human rights, observance of the rule of law, transparency and accountability to be crucial issues in Zimbabwe," they said in their statement, condemning the ministry of information for remaining silent over the alleged abduction and torture of journalists.

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BRITAIN

CAR MANUFACTURING ROVER 200 AND 400 TO BE REPLACED

New model for BMW offshoot

By John Griffiths in London

BMW is expected to announce early next month that it will go ahead with a \$2.7bn project to replace Rover's 200 and 400 models. But the German group will avoid committing to build the new models at the Longbridge plant near Birmingham in the English Midlands.

The announcement - likely to come at the Geneva Motor Show - will signal the start of negotiations with the UK government in which BMW is seeking £150m-£200m of public aid for the plant.

BMW will tell ministers the project could be located more profitably in Hungary or other sites outside the European Union if they fail to back the request for financial aid, according to people close to the negotiations.

But people in the car company say that Longbridge, whose 14,000 workers build the current Rover models, is the preferred site.

Under EU state aid rules it is necessary to show a real possibility that a project would locate outside the EU unless assistance were given.

Stephen Byers, the chief UK industry minister, yesterday stressed that the gov-

ernment will treat any application sympathetically. It would do "all it can" financially to ensure Longbridge builds the new car range. "I am confident that Longbridge is in a strong position," said Mr Byers.

BMW has been considering whether to introduce a small BMW, to be called the 2-Series. This would share a body platform with the 200/400 replacements to make

the project more viable.

But Joachim Milberg, the new BMW chairman who succeeded the ousted Bernd Pischetsrieder after a boardroom dispute over the future of Rover this month, has ruled out this option.

The 200/400 replacements, scheduled for introduction in 2002, will consist instead of a much broader range of vehicles. They will include multi-purpose vehicle vari-

ants, according to people associated with the project.

Production of up to 500,000 units a year is envisaged, double Longbridge's current output of 200,000 models.

General Motors' Vauxhall subsidiary is to set up GM's first development engineering activity in the UK for more than a decade.

The 25m centre, employing 75 engineering staff, will be involved in the engineering of light commercial and recreational vehicles, including work on a new range of panel van being developed jointly with Renault.

While Vauxhall has car and engine assembly plants in the UK, it has had no development engineering activities in the UK since GM sold Bedford, its truck company, in 1988. Car development was taken over by GM's Opel subsidiary in Germany 20 years ago.

Audi to invest \$80m in Cosworth engineering group

A big expansion was announced yesterday for Cosworth Technology, the UK automotive engineering consultancy, John Griffiths writes. Cosworth was bought by Volkswagen's Audi subsidiary from Vickers of the UK in September 1998 for an estimated £70m (\$114m). Audi, VW's

executive cars division, is to provide £47m of new business to Cosworth over the next three years and invest more than £50m in its infrastructure and facilities. The effect will be almost to double employment to 1,500 over the next three years. The extra jobs will be mainly at Cosworth's three plants in

the English Midlands although its US subsidiary in Novi, Michigan, will also benefit. Cosworth's racing engine division was sold by Audi to Ford soon after completing the deal with Vickers. Cosworth has had a close motor sport relationship with Ford for more than 30 years.

RETAILING BIRMINGHAM INITIATIVE

Developers drop rivalry to boost revamp of city

By Juliette Jowitt in Birmingham

Two of the UK's biggest retail development rivals yesterday joined forces to launch what they claim is the biggest city centre shopping scheme in Europe.

Hammersons and Land Securities - together with Henderson Investors - said they would pool their two developments in Birmingham, the second biggest city in the UK, into a single 240,000 sq m project with more than 200 shops. Work will start in about a year and the project will cost £800m (\$1.3bn).

The development of the notoriously ugly Bull Ring complex in the city centre, owned by Hammersons, and Martineaux Galleries, owned by Land Securities and Henderson, will be taken over by three new joint venture companies.

Ronald Spinney, chief executive of Hammersons,

said the projects would create 3,000 jobs and mark the final phase of the city's 10-year regeneration. "It's going to define the city of Birmingham and consolidate its position as one of Europe's most exciting urban destinations," he said.

The developer's move is widely seen as the only way forward. Both schemes have found it hard to attract retailers, who were playing off one rival against another. Hammersons signed up Debenhams, Boots and Marks and Spencer. The other project had no tenants. The alliance is now believed to be talking to household names including Selfridges.

Mr Spinney denied Hammersons was bounced into the deal but admitted the collaboration of two rivals on such a big project was "unique".

There was relief in Birmingham that the development would go ahead. It is



On its way out the unloved Bull Ring complex in the centre of Birmingham. News Team Birmingham

the UK's second city with a population of 7m within a one-hour drive.

Demand from retailers pushed rents up 40 per cent last year and the current range of shops is seen as low quality. Competition from nearby centres and out of town malls has been rising.

Teresa Stewart, leader of

Birmingham's municipal authority, said it was the last big improvement needed to overcome the city's poor image. Following the success of the International Convention Centre and National Exhibition Centre, "it's a strategy of cutting through the concrete jungle of the 60s and 70s testicles."

attractive look for residents and visitors," she said. The Court of Appeal in London yesterday reserved judgment on an effort by local and environmental protesters to block the construction of the Birmingham northern relief road, which would be Britain's first toll motorway.

Mark Goyder, director of the Centre for Tomorrow's Company, said that reform of the Takeover Code was required to bring about an efficient stakeholder regime because "it promoted short-term consideration of the interests of shareholders."

Roger Davis, head of professional affairs at PwC, the financial services company, said: "This is a once-in-a-generation opportunity for accountants and auditors to rethink the profession."

tors agree to a "highway code of conduct".

The case involved low value, sterling notes exchanged for high value foreign ones - principally guineas, 10-pounds, pesetas and Swiss francs - from a Thomas Cook travel agency, as well as branches of Barclays and Arab Bank.

The judge said that "not guilty" verdicts clearing Mr El-Kurd and Mr McGuinness of Dovecot, Liverpool, of specifically laundering drug proceeds, would remain uncertain how the cash had been generated.

Stakeholder report given cautious welcome

By Jane Martinson and Jim Kelly

The City of London yesterday gave a mixed response to a report aimed at achieving a complete overhaul of the way companies do business.

Key chapters of the report focus on the company's relationship with the wider community and its shareholders and stresses the need to remove the burden of legislation from smaller companies, as reported in the Financial Times yesterday. The 214-

page report also says there is a need to increase the use of technology among UK companies for better communications and to find some method of perpetually updating corporate law.

In launching the consultation document, Sir Stuart Hampson, chairman of John Lewis and a member of the 12-strong committee, said it hoped to go "to the heart of something referred to as the stakeholder debate".

He said that existing company law places an obligation on directors to take

account of other important groups but that this might need to be clarified.

He called for a broad response before the committee publishes its preliminary findings before the end of the year.

Few large City of London law firms had officially responded to the review following its launch by the Department of Trade and Industry last May.

Richard Regan, head of investment affairs at the Association of British Insurers, which represents large

institutional investors, said: "We note that the question of stakeholder interests is back on the agenda. However, it is important to recognise that directors are accountable to shareholders while we acknowledge that they have a responsibility to others."

However, Philip Goldenberg, senior lawyer at SJ Berwin, said the arguments about pluralism in the report were largely there to be rejected, although he welcomed the suggestion of the Law Commission that directors agree to a "highway code of conduct".

Mark Goyder, director of the Centre for Tomorrow's Company, said that reform of the Takeover Code was required to bring about an efficient stakeholder regime because "it promoted short-term consideration of the interests of shareholders."

Roger Davis, head of professional affairs at PwC, the financial services company, said: "This is a once-in-a-generation opportunity for accountants and auditors to rethink the profession."

Tougher targets to be imposed on rail companies

By Charles Batchelor, Transport Correspondent

The government yesterday set out its detailed plans for improving the privatised rail network, promising continued pressure on poorly performing companies and opportunities for the best.

"Delivering on our promises on transport is as important as delivering on its promises in all our key areas like health

and education," Tony Blair, the prime minister, told a rail industry "summit" in London.

The government's proposals for tougher performance standards and the renegotiation of train operators franchise agreements represent the biggest shake-up of the railway industry since privatisation was completed two years ago. Overall responsibility for rail planning will be assumed by a "shadow" strategic rail authority which will begin work on April 1.

Sir Alastair Morton - former chairman of Eurotunnel, operator of the Channel tunnel between France and England - was appointed chairman of the authority on Wednesday.

John Prescott, deputy prime minister and chief transport minister, described the programme unveiled to 180 senior rail managers and passenger representatives as

"a spring-clean package". He added that it would replace regulations that were "confused and weak and often contradictory".

He warned that there would be no relaxation of pressure on the rail companies to perform and they would be expected to report on progress to the following meeting in a year. But Mr Prescott acknowledged that the railways problems could not be solved in the

short-term. "The first 12 months, the next three years and the next 10 years are stations on the way to the modernised railway," he said.

Mr Blair said he wanted to make perfectly clear that the rail companies were still "on trial" over performance. But he softened the government's previous hard-line stance by saying: "Those in the industry who are getting results."

Money launderer gets \$1.6m fine and 14 years' jail

PA News Reporters in London

A businessman who used a bureau de change as a front for Europe's biggest money laundering operation was jailed for a maximum 14 years and fined £1m (\$1.6m) by a London judge yesterday.

The court heard that Jerusalem-born Osama El-Kurd maintained a modest lifestyle and pretence, enabling him to cultivate an image of a man barely making a living converting tourists' spending money.

But an estimated £70m passed through his hands in a secret counting house in the basement of the west London bureau in just under two and a half years. The cash belonged to British criminals.

Mr El-Kurd, a 50-year-old father of five sons, Greenford, west London, was convicted on Wednesday after a five and a half month trial, on four money laundering charges between 1994 and 1996.

The judge told him that "knowing or suspecting that those with whom you were dealing were introducing the proceeds of criminal activity on a massive scale to your business, you not only willingly assisted one and all to do so, but set the opportunity deliberately to enrich yourself to a fabulous extent as a consequence."

El-Kurd, a middleman and courier, skipped bail nearly two weeks ago and received a 10 year sentence in his absence. In just over a year he ferried at least £10m from crime gangs in north-west England to Mr El-Kurd's base at the capital's Morning-Bell district.

"I am satisfied that the immense sums of money which passed through the Notting Hill exchange were utilised to facilitate future criminal conduct as well as to enable those who had already perpetrated the illicit activity to enjoy the fruits of it," said the judge.

He told Mr El-Kurd it was clear this cash was from "very substantial" criminal activities and that the "major responsibility" for it rested squarely with him. "I regard your involvement... as meriting punishment at the very top of the scale," he said.

The case involved low value, sterling notes exchanged for high value foreign ones - principally guineas, 10-pounds, pesetas and Swiss francs - from a Thomas Cook travel agency, as well as branches of Barclays and Arab Bank.

The judge said that "not guilty" verdicts clearing Mr El-Kurd and Mr McGuinness of Dovecot, Liverpool, of specifically laundering drug proceeds, would remain uncertain how the cash had been generated.

NEWS DIGEST

GOVERNMENT OUTSOURCING

Lockheed Martin wins \$81m contract for UK census

Lockheed Martin has won a \$81m (\$11m) contract to modernise the UK census in time for the next one in 2001, which will require the processing of 30m forms. The contract was awarded by the government's Office for National Statistics. Lockheed Martin will sub-contract the processing to the ICL computer services offshoot of Fujitsu and the printing to Polestar Group, one of Europe's biggest printing companies. The same technology will be used in the US census in 2000. Tim Holt, ONS director and registrar general for England and Wales, described the techniques, said to be more accurate than manual keying, as "the best the world can offer".

Art Johnson, president and chief operation officer of Lockheed Martin's information and services sector, said: "This is a significant commercial information technology effort and it emphasises our long-term commitment to expand and further our many partnerships with the British Government and industry." Simon Briscoe, London

PREVENTION OF TERRORISM ACT

Sinn Féin attacks detentions

Sinn Féin, the political wing of the Irish Republican Army, protested yesterday at the holding by police in England of three former Irish republican prisoners detained under the UK's Prevention of Terrorism Act. Pat Coyle, Sean McKinnagh and Tony Miller will be detained for a further 24 hours following their arrest at Manchester airport, in Northern Ireland, on Tuesday. Permission to hold the men was given by Jack Straw, the home secretary.

Mary Nells, a Sinn Féin assembly member for the Northern Ireland city of Londonderry, said the men's detention was a "glaring example of the abuse of civil and human rights which accompanies the act; thousands of Irish people are detained and questioned under this repressive legislation every year, yet the statistics will prove that only a fraction of these people have ever been charged with any offence, or are subsequently convicted."

THE ECONOMY

Employers predict jobless rise

UK employers are set to shed by almost 400,000 over the next two years, even if interest rates continue to fall sharply, the Confederation of British Industry, the employers' lobby, said yesterday. It identified "glimmers of hope" for manufacturers in its latest monthly industrial trends survey but believes they are probably too late to stop the economy stalling over the coming six months. "There's qualified good and bad news," said Sudhir Junankar, the CBI's associate director of economic analysis. "We expect the economy to be at a standstill, but to pick up in the second half, and more so in 2000," he said. Fewer manufacturers reported orders below normal this month than in January.

"From our regional meetings, we have anecdotal evidence that orders are already starting to come back from France and Germany," said Kate Barker, CBI chief economic adviser. Melanie Carroll, London

SECRET INTELLIGENCE SERVICE

Career spy to head MI6

A career spy was yesterday named by the Foreign Office as the new head of the British secret intelligence service, popularly known as MI6. Richard Dearlove, the service's assistant chief and director of operations, will take over from Sir David Speeding when he retires in September. Mr Dearlove, 54, joined SIS in 1966 and was posted under diplomatic cover to Nairobi, Prague, Paris, Geneva and Washington. In 1993, he became SIS's director of personnel and administration before being made director of operations a year later.

The Foreign Office said: "Mr Dearlove's broad-ranging operational career has given him particular experience of working closely with national and international intelligence, security and law enforcement agencies." Tom King, the chairman of the parliamentary intelligence and security committee, welcomed Mr Dearlove's appointment. "We have considerable respect for him," he said. Jimmy Burns, London

RACE MURDER

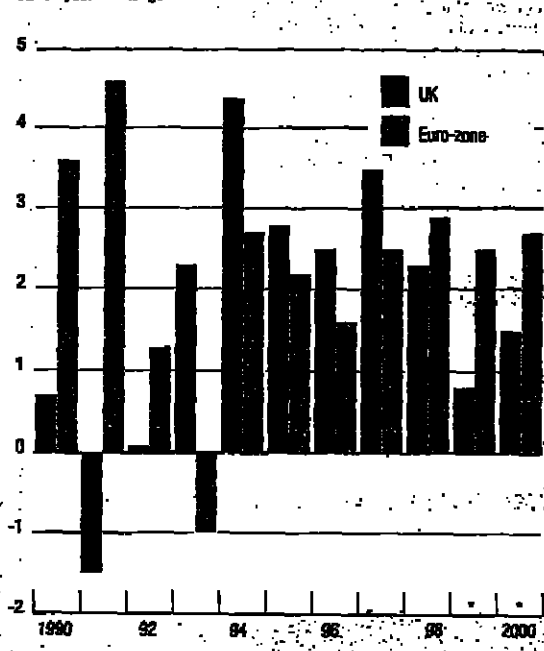
Parents seek compensation

The parents of Stephen Lawrence, the black student murdered by white youths in London six years ago, yesterday announced they will sue the Metropolitan Police over its handling of the investigation, unless they are paid adequate compensation. The move was made on the same morning that vandals attacked the memorial plaque to Mr Lawrence, set in the pavement at the site of his death. Jack Straw, the home secretary, described the desecration as "a dreadful act". Mr Lawrence's parents said it justified their decision to bury their son in Jamaica.

A day of fast-moving events following the publication of Sir William Macpherson's report into the killing of the 18-year-old began when the Daily Mirror newspaper offered a reward of up to £50,000 for any information leading to the conviction of any of the five prime suspects. Meanwhile, Sir Paul Condon - Metropolitan Police Commissioner, the London police chief - insisted that the murderers should still "feel hunted" and pledged to do all in his power to bring them to justice. Simon Buckley, London

Real GDP growth

Year on year % change



Source: OESO, ECU

Forecasts

Many uncertainties hang over nation's route towards euro

Is the UK economy ready for membership of the single currency? Christopher Adams and Richard Adams report

This week the UK government signalled its strongest commitment to eventual membership of the European single currency. But is the economy ready for it?

Tony Blair, the prime minister, made clear there was a strong likelihood the relevant economic conditions for joining would be in place before the next general election, due in 2001.

But judging how close the UK is to convergence is not easy.

Paul Turnbull, UK economist at Merrill Lynch investment bank, says the government's tests for entry are sufficiently vague for politi-

cal expediency to dictate whether or not they have been met.

They ask whether there can be sustainable convergence between the UK and the euro-zone economies; if there is adequate flexibility to cope with economic change; what effect there might be on investment; what will be any impact on financial services; and whether participation would be good for employment.

Mr Turnbull believes the biggest obstacle to Euro membership will be public opinion. "This constitutes a barrier to entry that did not exist, at least in the immediate run-up to Euro, for any of

the founder members of the euro," he says.

But some analysts argue there are considerable economic uncertainties. Most important, a rebound in growth next year could create inflationary momentum that would require some tightening of monetary policy, lifting UK interest rates away from euro-zone levels.

The likelihood of this increases if the Bank of England, the UK central bank, adopts a more activist stance towards "monetary policy". Monetary policy could be eased further in the short term, with interest rates perhaps moving from 5.5 per cent to between 4 and 5 per cent.

Eddie George, Bank governor, said this week there was "potential for tighter" should "pressure grow" for interest rate convergence.

The Bank might find it difficult to meet the inflation target if it was obliged to reduce rates towards European levels.

Inflation remains one of the UK's weaknesses and there is much to do to bring the rate of general price increases down to the euro-zone level.

David Mackie, UK economist at JP Morgan investment bank, says inflation is likely to go much lower than the Bank of England or many independent analysts expect, meaning a more aggressive disinflation.

Mr Mackie adds, "for whatever reason, inflation unexpectedly shifts lower, the central bank should take advantage of the situation by lowering its policy objective."

The UK's inflation rate, as measured by the pan-European Union Harmonised

Index of Consumer Prices, is 1.6 per cent at an annual rate. The average for the euro-zone is 0.8 per cent.

The UK's price inflation under the HICP measure has been 0.6 per cent lower over the past five years than the standard headline retail prices index measure.

So it seems UK inflation, measured by the HICP, is in line with the European Central Bank's target for harmonised inflation of between zero and 2 per cent.

But the Bank of England's monetary policy committee has a clear policy objective - it is charged by the government with keeping the underlying price index to 2.5 per cent. But Mr Mackie says it is "not entirely evident" what the ECB is trying to achieve. "The ECB's behaviour in the past couple of

months - it has shown little inclination to cut rates despite sluggish growth, inflation 0.8 per cent and unemployment at 10.8 per cent - suggests it is aiming to keep inflation below 2 per cent at all times," he argues.

That implies the ECB is aiming for an average inflation rate of about 1 per cent - in which case the UK inflation target will need to be reduced well ahead of Euro membership.

Mr George made a similar point to the House of Commons Treasury committee on Tuesday. Mr George said he had not discussed with the chancellor of the exchequer what policy action needed to be taken ahead of Euro membership. But he warned that a change in the measure of inflation would mean an adjustment to the target.

John 20 4220



RICHARD DONKIN

Riches for the few

Share incentives are widening the pay gap between the top and the bottom

For a few years during the 1990s it looked like companies were becoming interested in the single status workplace. The management dining room, the named car park space and the key to the directors' loo seemed things of the past as companies began to flatten their hierarchies.

These symbols of power began to look out of place as companies reduced staff levels and took on the outward appearance of a meritocracy. Management no longer used the language of "us and them", just "us", and it referred to everyone. A few cases of cynicism remained, secretly identifying with a cartoon called Dilbert, particularly when it was explained that the "common good" amounted to faceless shareholders whose outlook did not extend far beyond the next profit and loss account. But this was the system. Surely it was the same for everybody.

Also it never was the same and the differences in the reward structures of those at the top and those at the

bottom are becoming increasingly apparent. The language of "us and them" is alive and kicking in one area that really matters to the individual – the pay deal. Instead of a common pay system worked out by the head of human resources, publicly quoted companies favour a two-tier system. Pay consultants tend to work most strenuously at

A top UK executive can earn 20 times more than a clerk

the top end of the company, devising elaborate packages of incentive and reward like Seville Row tailors creating bespoke suits, while the mass of employees get an off-the-peg deal.

The fanciest of these packages in the UK tend to be the high-octane pay deals devised for US executives recruited to run UK companies. The bonus and

incentive-weighted pay package conceived for Michael O'Neill, the new chief executive of Barclays, recruited from Bank of America, is the latest deal to raise concerns that transatlantic executive recruitment is leading to escalating rewards for UK chief executives.

Barclays had to splash out \$10m to bring in Mr O'Neill, but less than 10 per cent of that figure is base pay. He will get \$250,000 base salary plus 100 per cent bonus in his first year, in addition to a share option package worth four times his base salary and an unusual trust incentive that will further boost his earnings if he stays for at least three years.

The long-term incentive requires him to buy \$5m worth of Barclays shares and place them in trust. The bank will match the portfolio with another \$5m of shares which will be passed over to Mr O'Neill if he stays in the post.

Compensated, it would appear, need not fear UK government proposals to put company remuneration policies to a vote of shareholders. Barclays shareholders regarded Mr

O'Neill's appointment as money well-spent. Barclays shares rose 74p after the announcement. The company then announced a freeze on costs.

The extent to which base pay has been reduced to the status of pocket money in US-style executive packages was highlighted in a recent paper by Brian Hall, an associate professor at Harvard Business School. His analysis of executive pay between 1990 and 1994 in 478 large US companies found that changes in a chief executive's wealth due to share and share option realisations were more than 50 times larger than the changes in their wealth due to salary and bonus.

An average chief executive, whose company increased in value by 10 per cent, says Prof Hall, would have seen his salary and bonus increase by \$23,000 (\$14,110), but the value of his shares and share options would have risen by \$1.5m. "Salary and bonus changes thus account for only 2 per cent of pay to performance sensitivity, while stock and stock option changes account for the rest," he says.

Prof Hall suggests some refinements to the way options should be paid. But he makes no observations about the underlying fairness of the system. Rather he points out that the idea of building large equity stakes among chief executives is to encourage them to "think like owners". Their thinking these days

so often seems to move in the direction of merger, resulting in yet another weeding out exercise among the workforce.

Merger-related job cuts were twice as high in 1998 as they were in 1997 in the US. These are not all in the lower ranks. Challenger, Gray & Christmas, a US outplacement business, points to evidence of increasing numbers of higher paid executives losing their jobs. "Companies are clearly focusing on limiting higher paid jobs in an effort to real in costs," says John Challenger, its chief executive.

This gives the lie to the "employees as assets" myth. Employees are often a company's biggest cost. Redundancies and recruitment are also costly so the modern human resource specialist will seek to increase agency labour and temporary employees in addition to outsourcing.

Meanwhile the gap between the earnings of those at the top – whose packages are so loaded with variable pay arrangements it is difficult to estimate their actual returns – is increasing. A top executive in the UK today can expect to earn between 20 and 25 times the earnings of a junior clerk, according to calculations made by Hay Management Consultants. In the US the differential is 40 to 50 times, in Germany 15 to 20 times and in Japan 10 to 15 times.

Sir Stuart Hampson, chairman of John Lewis

Partnership, has been a lone voice in what otherwise seems like a conspiracy of silence about pay at the top. He believes that the difference between top and bottom pay should become a prominent issue in corporate governance. "The concept of a relationship between what a sales assistant is paid and what a director is paid is important," he told delegates at a recent conference on employee share ownership.

"It's absolutely at the heart of fairness that there should be some link between pay at the top and pay at the bottom."

If UK public companies are to become true meritocracies they must do more than emulate US-style executive packages for their directors. They should introduce equity stakes – far more prominent in US businesses – for all employees. At Capital One, the fast-expanding US credit card company, every employee received 300 shares about four years ago when they were worth \$15 each. Those shares are now worth more than \$20,000. "It's enough for some of our people to buy a house for the first time in their life. That really makes a difference," says Nigel Morris, Capital One's president.

No wonder many of the more entrepreneurial fledgling companies are attracting some of the most talented young people. A new generation of employees is voting with its feet.

richard.donkin@ft.com

WORKING BRIEFS

How time off can translate into lifelong learning

If anything highlights the different cultures of the US and UK workforces it is their respective attitudes to time off. Americans seem almost unbothered about time off, yet in the UK people leap at the opportunity to get away from work.

There is something seductive, therefore, about a report entitled *Time Off Pays Off – How Reductions in Working Time Can Create Jobs and Promote Lifelong Learning Opportunities*. The Fabian Society paper makes a well-argued case for establishing a right to time out of work for learning new skills.

Anne Gray, an economist and the report's author, argues that employees in most need of educational and training opportunities are often denied them because they are working long hours. To overcome this, she says, people should have a right to unpaid study leave and the UK government should provide tax relief on employee and employer contributions made into a "sabbatical fund" used to help finance periods of study. In addition, she says,

the government should encourage employers, training and trade unions to pilot work-sharing arrangements linked to training or learning opportunities.

Such policies, she says, could help create jobs for people recruited to cover for those on study programmes and companies would benefit from employees with greater skills. The report costs £15 (\$24). Call: +44 0171 222 8877

Changing fees

Increasing competition among headhunting firms in the US is leading to a steady erosion of traditional fee arrangements based on a third of the placed executive's first-year earnings, according to Kennedy Information.

No more than a quarter of firms researched in the study stuck to the traditional formula. Nearly a half based their fees on a different percentage and another quarter charged either a flat fee or a combination of flat fee and percentage of first-year earnings. Some five per cent included hourly rates in fee structures. The full report, *Compensation, Fees & Profitability in Executive Recruiting*, costs \$395. Tel: 001 603 585 3101

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Harrow, Middlesex

The Role

- Underwriting proposals within a discretionary level of authority.
- Recommending appropriate responses to larger ticket proposals to Senior Underwriters.
- Act as a focal point for sales and business credit teams in order that they can seek guidance on related topics and issues.
- Assist the General Manager, Specialist Underwriting, in promoting improved underwriting standards group-wide.
- Maintaining up-to-date industry knowledge and an awareness of current pricing levels.

£ Excellent

The Candidate

- A minimum of three years' underwriting or credit experience in an asset finance environment.
- The potential to develop into a larger role within the Abbey National Group over the medium/long term.
- Ability to work as part of a team in a dynamic and non-bureaucratic environment.
- Excellent written and verbal communication skills.

Interested candidates should contact Robin Keck on 0171 268 1872 for an initial discussion. Alternatively, send your curriculum vitae quoting reference 487635 to Michael Page City, 50 Cannon Street, London EC4N 3JJ. Fax: 0171 329 2986 or e-mail: rob.keck@michaelpage.com

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In this respect they are seeking to recruit a small/mid cap German engineering equity analyst to work closely alongside the highly rated Pan-European team. The role will involve in-depth analysis and forecasting of the financial performance of the quoted companies in this sector. The research will be marketed through written reports and direct communication to institutional clients, as well as through the sales team. The role will also involve extensive primary research.

Suitable applicants will possess an outstanding academic track record (preferably to post-graduate level - MBA, MSc, PhD) and must be fluent in both German and English. They may currently be equity analysts or corporate financiers in any sector with at least 2 years experience. Alternatively they may have at least 2 years experience within a firm of strategic management consultants or in an internal strategy role in an engineering firm. Excellent communication and presentation skills are vital, as is the drive and motivation to succeed within a highly competitive market.

Our client offers a meritocratic and challenging environment coupled with ongoing technical training and staff development programmes. An excellent remuneration package is offered which is designed to attract and retain the very best individuals.

Interested applicants are invited to contact Gareth Lewis-Lloyd on +44 171 930 1222, facsimile +44 171 930 1444 or email gl@astburymarsden.co.uk. Alternatively write enclosing full CV and current salary details to Astbury Marsden Search & Selection, 40 Strand, London, WC2N 5HZ, England. All enquiries will be treated with the strictest confidence.

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The Inter-American Development Bank, the oldest and largest regional multilateral development institution, based in Washington, DC is seeking a successor to the Chief, Investments Section to manage the Bank's \$11 billion of multi-currency fixed income investment portfolio. To be considered for this position, candidates should have a minimum of 12 years experience in international fixed income investment management, proven ability to manage a small dynamic team of investment specialists, and at least a master's degree (or equivalent) in finance, economics, or business. The successful candidate will be familiar with swaps, futures, options, asset backed securities and other traded derivatives and will be comfortable working in an international environment and in a large, complex organization. Fluency in English is required. Proficiency in another Bank language (Spanish, Portuguese, French, and German or Japanese is desirable).

The Bank offers a competitive salary, comprehensive benefits plan, and relocation package. Applications must be received by March 19, 1999. Send resume in duplicate with a cover letter and salary history to:

Attention: VAB-CIS-FIN
Inter-American Development Bank, Stop E0507
1300 New York Avenue NW, Washington, DC 20577 USA
or Fax (202) 623-3014.

For additional information on this posting, please refer to Vacancy Announcement No. 59/09 at: <http://www.iadb.org/dpa/jobpost1.htm>
Only applications which best match the requirements of the position will be acknowledged. The IDB encourages gender equality in its hiring practices.

Marketing Directors

Enzyme Business Operations

Novo Nordisk Denmark is seeking two or more Marketing Directors for its Enzyme Business. Each Marketing Director will be responsible for a part of Novo Nordisk's 700 million USD enzyme business with a reporting line to the Corporate Vice President of Enzyme Business Operations. The Marketing Directors will work closely with the regional Marketing Managers in Paris, Hong Kong, Raleigh, North Carolina, and Curitiba, Brazil as well as the R&D organisation in Denmark. The Enzyme Business of Novo Nordisk is an international leader in its markets with research and production facilities in several countries and spends 12 per cent of its turnover on R&D to market innovative products.

We expect the Marketing Directors to lead and help the organisation in modifying and reengineering its marketing and sales processes to meet the future needs of our customers. The Marketing Directors will be members of the global Enzyme Business Operations management team.

Responsibilities:

- Develop business strategies together with the Enzyme Business management team.
- Implement global marketing plans and product introduction plans together with the regional sales organisations.
- Analyse opportunities in the market and develop plans to explore opportunities.
- Continuous development of our business-to-business marketing tool box.
- Lead a small group of marketing managers.

Qualifications:

- Successful candidates will have a training in business management and several years of experience from successful international business-to-business companies and personal experience in market segmentation, competitor analysis, business strategies and introduction of specialised products.
- Technical competence and project management skills will be an advantage in an organisation focusing on innovation and growth.
- Strong leadership, interpersonal, teambuilding and communication skills coupled with strong marketing skills and customer focus will be necessary to have the desired impact on our organisation and our business.
- We expect candidates to be fluent in English.

For further information, please contact
Corporate Vice President Peder Holk Nielsen on telephone/fax +4544423598/+4544980610 or e-mail: phn@novo.dk

If you are interested in this opportunity, please send an application marked "Director/161" including list of past successes, a description of your career expectations and your current reward package to Novo Nordisk A/S, Enzyme Business Human Resources, Kroghsvej 36, DK-2880 Bagsvaerd, Denmark. You may also submit your application by e-mail addressed to: sujo@novo.dk

Novo Nordisk AS is the world leader in insulin and diabetes care and also the world's largest producer of industrial enzymes. The company also manufactures and markets a variety of other pharmaceutical and biotechnological products. Headquartered in Denmark, Novo Nordisk employs more than 14,000 people in 61 countries and markets its products in 130 countries. More information can be obtained from our homepage: <http://www.novo.dk>

Novo Nordisk



Novo Nordisk AS
Novo Allé
DK-2880 Bagsvaerd

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The London Branch of a major German bank is expanding its Structured Finance and Principal Finance activities and seeks an experienced:

with extensive US investment banking knowledge. Whilst this position would require the individual to work in Europe and the UK, client contact in the US and extensive knowledge of the US markets are essential. Ideally having worked in this region before. Significant US based Structured Finance and Debt & Equity Capital Markets experience is a must.

The successful applicant will have a minimum of 5-7 years' experience in this line of business with particular knowledge in the assessment of a variety of asset classes.

He/she will be an important member of various securitisation, marketing and execution teams, responsible for the development, analysis, assessment and day-to-day running of the Bank's business in this sector.

The position will involve customer contact and demands flexibility, an outgoing personality and the ability to make decisions. Good skills in computer modelling are required.

Some knowledge of German is desirable but not a requirement. This position offers excellent career prospects in a professional international environment.

Applications with full curriculum vitae, quoting reference number 584501, to:
Mr. Adams, Financial Times, One Southwark Bridge, London SE1 9HL

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Draft, negotiate, and close large software license agreements with customers, distributors, system integrators, and business partners. May also handle a broad range of transactions, including nondisclosure agreements, technology agreements with third-party licensors, independent contractor agreements, training and service-related agreements, and real estate leases. Candidates must have 3-5 years of software licensing experience, preferably with a major software technology company. The München position requires oral/written fluency in both German and English.

CONTRACTS ADMINISTRATOR
Position in Egham
Provide administrative support to the Legal/Contracts group. Perform contracts administration and negotiation involving a broad range of transactions, including handling of non-disclosure agreements, development of internal policies and systems, and analysis of contract data and documents. Candidates must have 3+ years of legal administrative or other relevant experience, preferably with a major software technology company, and proficiency in Microsoft Word and Excel.

Both positions require excellent written and oral communications skills, superior organizational and business judgment skills, and the proven ability to work closely and effectively with experienced senior executives and sales professionals on multi-million dollar transactions in a team environment, under time constraints, and with great attention to detail.

Stock options will be included in the compensation package. Please fax or e-mail resumes to:

David Upcher
Senior Corporate Counsel
US FAX 1-650-255-5116
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Working within a dynamic team with a truly global perspective and market coverage, this experienced LME marketer will share many of the qualities required above including the same levels of energy and commitment. Equally comfortable with day-to-day flow business and sophisticated derivative structures, the ideal candidate will also have an established client base.

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Please contact Trish Collins or Colleen Quilly on 0171 929 2383. Alternatively send full career details, including current salary package, to Exchange Consulting Group, 13 St. Swinton's Lane, London EC4N 8AL. Fax 0171 929 2805. It is our strictly held ethic that no CV is forwarded to the client without the express agreement of the candidate.

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Please contact: Ron Bradley-Director, Jonathan Wren & Co. Limited, 1 New Street, London EC2N 4HY. Phone: 0171 623 1266 Fax: 0171 628 5259 Email: ron.bradley@jwren.com

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1187 Corniche El Nil - Cairo
National Bank of Egypt - Investment Trustees Division

Applications should be sent no later than 29/4/1999

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A North American bank's London based operation is currently seeking a Trader/Structurer in the Derivatives Group.

The position will include backing-up the interest rate derivative traders, as well as helping out on the Structured Products Desk, where a knowledge of credit derivatives would be an asset. As it is a small group, the individual should have experience in working within a team environment and be willing to grow into the role that develops.

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Furthermore, as a function of the Firm's natural client base, a solid working knowledge of North American (particularly Canadian) credits would be required since the individual would be actively involved in providing financial solutions for them.

In addition to being able to fully function in English, being able to work within a French speaking environment would also be an asset, but is not compulsory.

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Reporting to the Regional Head of Tax, the successful individual will assume responsibility, inter alia, for the following:

- management of UK direct taxation
- implementation and maintenance of new tax software

- recruitment, management, training and development of a team
- ad hoc advice on employee taxation issues
- Confidential and proactive by nature, it is envisaged that the successful individual will have the following profile:
- currently working within the accounting profession or a commercial or financial services organisation with a minimum of seven years' experience
- a proven communicator with strong interpersonal skills, able to deal with all levels of staff up to and including Board level
- experience of financial services and tax software would be advantageous, but is not essential

This is a superb opportunity for an individual prepared to expand their abilities and develop this interesting role to its maximum potential.

Interested applicants should contact Andrew Hick from the Tax Division of Robert Walters Associates on 0171 379 3333 or write enclosing a Curriculum Vitae stating current remuneration, to Robert Walters Associates, 10 Bedford Street, London WC2E 9HE. Fax: 0171 915 8714

Email: andrew.hick@robertwalters.com

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A new Director, Group Finance is to be appointed to lead the operational financial management of the business, work with the Group Finance Director on strategic projects and co-ordinate activities in divisional operations worldwide.

The Position

- Manage group accounting, consolidation, financial planning and treasury management of the group.
- Advise the group board on a variety of financial issues and initiatives.
- Take the lead in ensuring effective management of the day-to-day finance function of the organisation.
- Initiate organisational improvements; assist operations in upgrading performance; participate in acquisitions at all stages.

The Requirements

- Graduate accountant, ideally an ACA, with high quality corporate experience.
- Proven operational finance skills.
- Demonstrable creative ability to ensure a consistent high quality contribution to the group's direction.
- Obvious longer term career potential for progression within the business.

Please send your CV with current salary details to:
Sean Arnold, K/F Selection, 252 Regent Street,
London W1R 6HL, quoting ref: 605802/04.

Alternatively send by fax on 0171-312 3380
or by e-mail to kf-london@kornferry.com
Internet Home Page: <http://www.kfselection.com>

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Director of Acquisitions

Transportation Service Industry

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- Take responsibility for acquisition activity for the European Group, working with country management, in-house specialists and external advisors.
- Provide a high degree of analytical, modelling and transactional capability.
- Special projects - to include country and market entry studies, costing and associated industry studies as well as process analysis, as and when the directorate require.

The Candidate:

- A degree educated ACA with a minimum of 8-10 years PQE gained in both control and M&A environments ideally with a European context.
- Outstanding technical, analytical, project delivery skills and track record gained in US reporting environments.
- Commercial focus, business acumen, communication and persuasion skills and the can do approach appropriate for a position of this importance and seniority.

Please write in confidence, with full career and current salary details, quoting reference JK/1630FT

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To pursue your interest in this first class opportunity you should forward your curriculum vitae to our sole advising consultants: Peter Downes Associates, Brookside Cottage, Red Lamb, Norden, Rochdale OL12 7TX. Tel & Fax 01706-632463. Please mark your envelope Ref PWA 50. Initial interviews can be held locally to suitably qualified candidates.



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We will turn to you for specialist financial expertise in planning, budgeting and forecasting. Excellent communication skills are essential along with the ability to develop relationships with budget holders and other senior staff. You will be a qualified Accountant (or working towards a qualification) with sound knowledge of relevant standards, excellent IT and accounting systems skills.

For an application form and further information contact Ann O'Sullivan, Scope, 6 Market Road, London N7 9PW. Tel: 0171 619 7132. Closing date: 19 March 1999.

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exposure to and involvement in other aspects of running the business. Candidates capable of assuming such a role will be chartered accountants with a minimum of 3-4 years post-qualification experience in the profession or commercial environment.

Ideally you will already have practical experience of international tax planning and must display good interpersonal and technical commercial skills. This is an outstanding opportunity for an individual who relishes a challenging environment and has displayed maturity and initiative in their career to date.

For further details, please contact Charles Ferguson at Michael Page Taxation, Page House, 39-41 Parker Street, London WC2B 5LN or telephone 0171 259 2244, fax 0171 831 8662 quoting ref 481659 or alternatively e-mail: charles.ferguson@michaelpage.com

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TAXATION

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European Finance Opportunities

Our client is one of the world's largest independent investment management companies with international operations spanning Europe and Asia. They are currently pursuing an aggressive strategy of growth which has created two key opportunities within their International Headquarters in the Southern Home Counties.

Financial Controller

c £65,000 + Bonus + Bens

Reporting to the European FD, the Financial Controller will be responsible for financial reporting for all UK and European operations. Annual budgeting, monthly performance monitoring, ongoing systems development, together with regulatory and US GAAP reporting, are integral to this challenging role. You will be a qualified accountant with at least 4-5 years post-qualification experience gained within a financial services environment. Ref 486517

The organisation offers a stimulating and dynamic environment where rewards are directly related to your ability and effort. Unrivalled career potential exists for the successful candidate.

Should you wish to discuss these opportunities please call our retained advisor, Nigel Milford, on 0370 223929 or send your CV, including details of your current salary package, to Michael Page Finance, Cypriot House, 45-47 High Street, Leatherhead KT22 8AG. Fax 01372 370101. Please quote the relevant reference number. e-mail: nigel.milford@michaelpage.com (CB4572)

Financial Accting Mgr

c £45,000 + Bonus + Bens

The Financial Accounting Manager will be responsible for monthly reporting, monthly estimates and analysis of income, preparation of quarterly IMRO returns and for overseeing the preparation of the annual statutory accounts. As a recently qualified accountant, you will have gained post qualification experience preferably within financial services. A second European language would be advantageous. Ref 475582

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FINANCE

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Tricon

Restaurants International

Commercial Project Analyst

The Tricon organisation comprises three core restaurant concepts, Kentucky Fried Chicken, Pizza Hut and Taco Bell. With more than 28,000 outlets, Tricon has more restaurants than any other business in the world. Previously part of PepsiCo Inc, Tricon has since its inception in 1997 become an international blue-chip organisation in its own right, boasting system revenues of over \$20 billion and substantial growth in profitability and new restaurants.

Surrey

£ Excellent + Bonus + Bens

Based at Corporate Headquarters for the European business unit and reporting directly to the Treasury Director, the individual will form part of the shared service team and will undertake a variety of commercial and financial projects. The position's primary focus will be leading the strategic development and implementation of the EURO across Tricon's businesses. Additional responsibilities will entail:

- Competitor analysis including pricing and external reporting issues.
- Extensive financial analysis of business performance and contributing to the forecasting, budgeting and financial planning processes.
- Undertaking capital expenditure and re-financing reviews.

This is a new role within the finance function that will involve extensive exposure to senior management.

Suitable candidates will be graduates, part or qualified accountants, with well rounded experience preferably gained within dynamic, revenue focused organisations.

Strong interpersonal skills are key and candidates must indicate a progressive nature, proactive thought process, credibility and results orientation.

Interested candidates should send their CV along with current remuneration to Alison Robinson quoting reference 486271 at Michael Page Finance, Cypriot House, 45-47 High Street, Leatherhead, Surrey KT22 8AG or fax your details to 01372 370101. e-mail: alison.robinson@michaelpage.com

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ABBNEY NATIONAL®

Finance Manager – Retail Banking

Abbey National plc is one of the largest and most successful banking groups in the UK with assets of £176 billion. UK Retail Banking is the group's largest business. The principal focus of this business is the provision of personal financial services to around 15 million customers nationwide.

Milton Keynes

c £60,000 + FS Benefits

An opportunity now exists within the Retail Banking business group for a talented and ambitious Finance Manager reporting to the Retail Finance Director.

You will manage a team of professional staff with responsibility for a major business area within the Retail Bank and will be required to make a significant contribution to the management and development of the bank. Your responsibilities will include:

- Financial planning and business analysis.
- Project evaluation.
- Ad-hoc high profile projects.
- Providing a commercially oriented contribution to the management team.

You will be a graduate qualified accountant with a proven record in a large, progressive organisation, not necessarily within financial services. You will bring with you a commercial focus and the energy, ambition and drive to add to the continued development of this successful business.

This is a senior management position with excellent prospects for the right individual.

Interested candidates should forward a CV including current salary details to Andrew Jones at Michael Page Finance, Executive Division, Grant Thornton House, 214 Silbury Boulevard, Central Milton Keynes MK9 1LT. Fax 01908 692 488, quoting reference 483960. e-mail: andrew.jones@michaelpage.com

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Acquisitions

in Service Industry

£70,000 + Bonus + Benefits

Our client is a leading international service company with a strong track record in the UK and overseas. They are currently seeking a highly motivated individual to join their Acquisitions Department. The successful candidate will be responsible for identifying and evaluating potential acquisition targets, conducting due diligence, and negotiating the terms of the acquisition. The role offers a challenging and rewarding opportunity to contribute to the company's growth and expansion.

For further details, please contact our retained advisor, Nigel Milford, on 0370 223929 or send your CV, including details of your current salary package, to Michael Page Finance, Cypriot House, 45-47 High Street, Leatherhead KT22 8AG. Fax 01372 370101. Please quote the relevant reference number. e-mail: nigel.milford@michaelpage.com (CB4572)

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c£65,000 + SUBSTANTIAL BENEFITS & RELOCATION PACKAGE CARDIFF

Bank One International is the fastest-growing credit card business and the largest credit card issuer in the world, with over \$60 billion in outstanding. After a successful launch into the UK credit card market from our European base, Bank One International is now driving expansion into further products.

As a key member of the Management Team, the Financial Controller will have responsibility for shaping the finance function to meet the demands of a rapidly growing business. As well as leading the financial reporting, planning and control processes, you will direct a number of significant projects and contribute to our strategic planning and business development.

You will be ACA qualified, trained in one of the Big Five, and have at least five years' experience, preferably within financial services.

For someone with energy, ambition, proven interpersonal and leadership skills, this role will provide excitement and challenge, along with real opportunities for personal career growth.

Cardiff is a vital springboard for us, and it is crucial that we have the best people carrying our business forward. A competitive salary is complemented by an attractive bonus plan and full relocation package.

Please reply in confidence quoting ref. FT202 to Gillian Rees, Bank One International, Terra Nova House, Scott Harbour, Pier Head Street, Cardiff CF1 1PN, or email gillian.rees@bankone.com

Interviews will be held in London or Cardiff from March 1999.

BANK ONE

International Financial Controllers

£ Excellent + Benefits + Overseas Allowance

Linklaters & Paines is one of the world's leading firms of corporate and finance lawyers. Recently they have joined with four other large European firms to create Linklaters & Alliance – the world's second largest integrated legal and tax practice.

To respond to this global expansion, the Group Finance Department of Linklaters & Paines, based in London, is creating a specialist team of International Financial Controllers for secondment overseas, to provide strategic and operational finance support to the firm's growing network of offices. Immediate opportunities exist for postings to New York and Moscow.

The role:

- Line management of an overseas finance function – reporting to the Head of Office you would manage a team of local finance staff, taking overall responsibility for day-to-day financial operations (payroll, credit control, accounts receivable and payable, banking).
- Tactical advice on taxation, regulatory and accounting standards compliance, treasury, credit management, work-in-progress and management reporting issues.
- Strategic input as to how the finance function can best contribute to the business objectives of the overseas office and the firm as a whole.

The person:

- You must be a qualified accountant (ACA, CPA or other international equivalent) with 5+ years post qualified experience.
- International experience – previous overseas postings are not essential, providing you can demonstrate a thorough understanding of branch accounting, group consolidation and international accounting standards.
- A second language, as well as experience of working for a large international partnership or company, would be an advantage.
- You will be commercial, pragmatic, self-reliant and flexible – with strong communication and interpersonal skills and high professional standards.

This is an excellent opportunity to use your accountancy training and experience to become involved in the management of an expanding international business.

Interested applicants should write enclosing full CV, daytime telephone number and details of current remuneration to David Thapnell or Jonathan Stokes at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LN, fax 0171 831 2612 quoting reference number 485296 or e-mail: david.thapnell@michaelpage.com

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The FT IT Recruitment section is also available all week on www.ft.com



BARCLAYS PRIVATE BANKING

Strategic Finance Director

London based

£Excellent Remuneration

Barclays Private Banking is part of Barclays Wealth Management division and is a rapidly expanding global business with over USD9 billion in assets under management and representation in 25 locations in 5 regional groupings. The bank supports an international client base through providing investment management, trust, advisory and banking services.

An experienced and energetic finance professional is sought to lead the strategic financial development of the business. The appointee will be responsible for the direction of the Global Finance function. The Finance Directors in each region have a direct reporting line into the Strategic Finance Director of Barclays Private Banking and the relevant regional business management.

Candidates may have experience outside of the financial services arena, but must have the technical capability to operate within a complex international environment and the interpersonal skills to be successful within a devolved matrix structure.

If you have the appropriate skills and the demonstrable potential for further development, please send a copy of your curriculum vitae, including current remuneration details to Susan Milford at Ernst & Young Executive Search & Selection, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 3NF, or fax: 0171-931 1022 or e-mail: smilford@ecy.com quoting reference SM336. Telephone: 0171-931 1023.

Financial Controller

Major International Retail Start-up

Central London - Salary c. £55,000 + s/options

With backing from JP Morgan behind a proven team of entrepreneurs, this represents a rare opportunity for a high calibre Finance professional who has a track record of demonstrating effectiveness within a change orientated, fast moving environment. Revenue is forecast to exceed \$300 million in the second year of trading, when the company expects to list on NASDAQ.

Working closely with, and reporting to the CFO, you will be expected to assist in the development and implementation of effective financial controls and systems capable of providing valuable management and financial information to the business, in support of worldwide operations. This will include building a small accounts team in London, where the central accounts and administrative functions will be situated.

Ambitious, experienced and keen to make your mark within a fast growing company, it is likely that you are a qualified accountant with

a strong background of UK and US GAAP, tax and regulatory requirements. Although experience of a previous start-up would be advantageous, the core requirement is for an individual with experience of operating in a large group with sophisticated international operations and a very commercial "hands on" approach.

If you wish to be considered for this outstanding career opportunity, please send your curriculum vitae, including current remuneration details to Tim Hastings at Ernst & Young Executive Search & Selection, Rolls House, 7 Rolls Buildings, Fetter Lane, London EC4A 3NF, or e-mail: thastings@ecy.com quoting reference TH335.

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INTERNATIONAL FINANCIAL CONTROLLER

Middlesex
c. US \$150,000 Package

TANITA

The TANITA Corporation is the world's leading manufacturer of consumer, medical and commercial scales, and inventor of the TANITA Body Fat Monitor. With more than 10% of the global and over 60% of Japan's domestic market, TANITA has established its reputation for quality, innovation, reliability and service.

TANITA Group comprises the Japanese parent company and operating subsidiaries based in China, Hong Kong, USA, Germany, France and UK, strategically located to meet the challenges of international business.

This highly profitable, fast growing organisation now has revenues in excess of £200 million. An aggressive and demanding 5 year strategic plan for further rapid expansion will see its turnover exceed £1/2 billion, of which 50% will be international.

This newly created position will form part of the small international executive team,

under the leadership of the Chairman & Chief Executive of Overseas Operations. This unique opportunity requires a highly talented financial professional with a focus on new business solutions.

Specifically you will:

- assist international CEO and Parent Company executives with the strategic planning process;
- create and implement new international management information systems;
- collate and consolidate information at main board level;
- monitor and ensure the professional performance and operation of all Overseas Subsidiary finance functions.

To meet the demands of this progressive environment, you will be a qualified accountant with 10 years commercial experience, including 5 years with a strong

international influence. The role will require significant overseas travel therefore one or more European language is strongly preferred although not essential.

In the first instance, please contact, in complete confidence, Ryan Elliott on 0181 814 1666. Alternatively, please send your full CV, including the details of your current remuneration, to him at HW Harrison Willis, 3rd Floor, 6 Lampton Road, Hounslow, Middlesex TW3 1JL. Fax: 0181 814 1444. E-mail: ryan.elliott@hwgroup.com Internet: www.hwgroup.com

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Vice President - Finance

Highly successful, dynamic investment management business

Monaco

c.£85,000 + Performance Related Bonus - Tax-Free

This privately owned group has consistently achieved outstanding returns on its global investment portfolio as a result of unparalleled knowledge of emerging markets, rigorous analysis and a long-term, value oriented investment philosophy. The group is substantial, entrepreneurial, fast moving and imaginative, yet at the same time characterised by stability, an excellent reputation and the highest professional standards. In short, it excels at what it does.

This role has been created because of the sustained growth of the portfolio worldwide. Managing a small team and reporting jointly to the CFO and CEO, the job holder will be involved in all aspects of the group's finances. Specific responsibilities will include: financial and management reporting, and budgeting; reviewing and upgrading existing financial systems and controls; and providing input to investment appraisals. As a member of a small executive team, the job holder will make a key contribution to the business as a whole.

Candidates must be technically strong ACAs with several years' post-qualification experience. This will have been gained either in financial services audit or with a move into the finance function of an investment bank, fund manager or other relevant business. A knowledge of sophisticated multicurrency transactions and complex financial structures is essential. Key qualities include commitment, resilience, self motivation, attention to detail and maturity, complemented by enthusiasm, imagination, high energy levels and a 'can do' approach. Previous international/overseas experience is preferred.

This is an unusual, challenging role, with significant potential. The ability to thrive in a professional, dynamic and collegial environment is mandatory. The package, which is tax free, will include a relocation allowance.

Please send a full CV in confidence to GKR at the address below, quoting reference number 99211L on both letter and envelope, and including details of current remuneration.

GKR

Queensberry House, 3 Old Burlington Street,
London W1X 1LA.
Tel: 0171 534 0078. Fax: 0171 534 0001.
E-mail: hball@gkrgroup.com

DIAGEO

Group Controller - Managing For Value

Central London

c.£90,000 + Bonus

Diageo, formed through the merger of GrandMer and Guinness, is one of the world's leading consumer goods companies with a turnover in excess of £12 billion. The Group is committed to generating superior returns for its shareholders. Consequently, new performance targets, focused on significant economic profit enhancement, are being set for the four core businesses: UDV, Guinness, Pillsbury and Burger King.

This new high profile role will have a key strategic influence in leading the implementation of an effective MFV reporting framework. Responsibilities will include:

- championing the adoption of a leading edge KPI based performance management system across the Group;
- providing a reporting and financial analysis service for the Diageo Executive Committee and Board;
- providing a financial appraisal service for major business development proposals;

- involvement in significant change management programmes;
- providing a Corporate Centre cost reporting and management service (£100 million cost base).

This role represents an outstanding entry point for a fast track, high achiever. Candidates will be accountants/MBAs with around 10 years' ppe. Excellent communication skills, high self-confidence, energy and enthusiasm and a persuasive style are essential.

This extremely challenging role also requires a sharp strategic mind, strong task orientation and a powerful intellect.

Please send a full CV in confidence to GKR at the address below, quoting reference number 99009J on both letter and envelope, and including details of current remuneration.

GKR

Queensberry House, 3 Old Burlington Street,
London W1X 1LA.
Tel: 0171 534 0099. Fax: 0171 534 0001.
E-mail: lcorry@gkrgroup.com

International Auditor
Bilingual English / French
London - Grenoble

Our Group (2 400 people, ME 250) is the world's leading manufacturer and operator of specific automatic machines on its market. Owing to our continued growth, due to the development of new products and recent acquisitions, we intend to reinforce our internal audit team. Your responsibilities will be the following:

- conduct financial and compliance audits of our operations and processes to assess the effectiveness of controls and accuracy of financial statements;
- provide the general management with the reassurance that business risk is at an operational minimum;
- recommend and contribute to company performance;
- help implementing a programme of change of management methods;
- ensure reliability and integrity of financial information, being the basis of a successful and progressive business.

You are qualified accountant or university graduate in business (or equivalent). You have 2 to 3 years post quality experience in external audit with a Big Five firm. You know the state-of-the-art auditing techniques and methodologies within an international environment. You have strong communication skills and a good resistance to pressure. You are totally fluent in English and in French. Lastly, you are prepared to travel extensively. Please send your application mentioning your present salary, under the reference 9904PBAE to PASCAL BONNET - PA Consulting Group, 15 Boulevard Eugene Delacroix - 69003 LYON France - Tel. 33.472.80.80.80. You can also write to pascal.bonnet@pa-consulting.com or fill our application form on our site www.pa-jobworld.com

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plus benefits

World-Class
European Company

West London

Head of Finance and IT

Recent promotion has created an outstanding opportunity with Board prospects for a commercially minded finance professional to join a highly reputed, profitable and growing £200 million turnover product and service market leader. This is a Finance Director designate position: the successful candidate will become Company Secretary on joining and will join the UK Board within two years. Full participation in management decision making at this successful subsidiary of a £2.5 billion international group expected.

THE ROLE

- Responsible to the Managing Director for leading and developing the finance, IT, personnel, company secretarial and administrative functions in support of business objectives.
- Enhance management information systems and processes to support the expanding sales and service divisions as the business becomes more complex and technology-driven. Oversee the introduction of progressive HR policies.
- Manage significant contractual and leasing agreements, liaising with finance houses and managing commercial risk. Significant interface with European HQ and international sister companies.

THE QUALIFICATIONS

- Ambitious graduate accountant, with at least five years' post qualification experience and first-class financial management and contract negotiation skills gained in a blue-chip international sales or distribution business.
- Strong communicator and leader with a hands-on approach. Highly IT literate with knowledge of ERP systems and MIS in general.
- Capable of advising on strategic issues and developing into a broadly based Executive Director. Comfortable and effective in an international environment. Pragmatic and dedicated with a good sense of humour.

Tel: 0171 298 3333
Fax: 0171 298 3388
Email: cvaldron@spencerstuart.com

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Equity Research
To £60,000 + bonus

Our client is the quantitative research team supporting the Equity Derivatives desk of a highly successful European banking group. To meet the growing demands of this thriving business they require two additional quantitative analysts. Currently you will be working in the City markets and be able to demonstrate a thorough knowledge of Stochastic Calculus, Monte Carlo Simulation and Numeric Integration. Experience of derivatives pricing using Martingale and Binomial Trees would be desirable. A proven programming background in C++, Java and/or VBA is essential, as is the ability to work both independently and with small dedicated teams.

For a confidential discussion please call Rod MacKenzie at LF on 0171 206 5800 or on 01279 725 683 (evenings/weekends), alternatively email to rmackenzie@lawfin.com

PROJECT MANAGERS
Interest Rate Products
To £80,000 + benefits

As one of the most prestigious investment banking groups with a truly global presence our client always strives for perfection. Their markets cover Corporate Banking, Fixed Income, Equities and Fund Management. They now require two project managers with first class track records of delivery within the derivatives markets (Swaps, Bond Options, Equity or Interest Rate). You will have a numerate first degree and currently be working for an investment bank or City software product supplier. Your experience will include package evaluation and implementation, Web technology and Risk Management development.

LF LAW & FINANCE
INTERNATIONAL

ANALYST
DEVELOPERSGLOBAL INVESTMENT BANK
ALL PRODUCT AREAS

\$\$\$ SUPERB PACKAGES

This is one of Europe's and the world's most successful banking institutions with a powerful global presence and a strong reputation for leadership in financial product development and technical innovation. They are now seeking to recruit a talented quantitative analyst and a number of quantitative developers to further strengthen both their London trading activities and various new risk management initiatives. Both quantitative analysts and developers work together to develop, enhance and integrate trading and market risk models, libraries and strategies.

You should boast an excellent science/mathematics academic background including a 1st/2.1 honours degree from a top-tier university and preferably a high degree.

CITY

You should have a minimum of one year's financial experience. For the developer positions a strong software engineering background is required. Successful candidates will have excellent C/C++ and some of the following: Visual C++, Visual Basic, Excel, Numerical Methods etc. (We are also seeking C/VMS skills.)

Remuneration packages are superb and include substantial bonuses and benefits and a review in six months.

In the strictest confidence, please send a full CV to: Craig Miller at Millar Associates, 6 Sloane Street, Knightsbridge, London SW1X 9LE. Please quote reference no. FT2402. Tel: 0171 823 2222. Fax: 0171 823 2208. Email: craig.miller@millarassociates.com.

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INTERNATIONAL SEARCH & SELECTION

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SUPPLIER OF TREASURY SYSTEMS

Head of European Operations

£six-figure package

London based

Our client is one of the leading suppliers of Treasury Management Systems, operating in global markets with a strong established international presence. It provides front-end trading systems to banks and financial institutions for FX, money markets, fixed income and derivatives. Recent growth and expansion has created an opportunity to recruit a Head of European Operations based in London. This is a senior position within the organisation which has a number of demanding responsibilities which include:

- Managing and developing the European Implementation and Support teams in London
- Developing the Consultancy business for Europe
- All administrative matters regarding the European Office
- Working closely with the North American and Asia Pacific Regional Managers to provide global implementation and support of the business.

You will have been involved with systems for treasury, trading and risk and currently be working with a software vendor or consultancy firm. You will possess natural

leadership qualities in terms of managing major projects and multiple initiatives as well as managing and motivating people who are part of your team.

A results orientated individual, you will be commercially aware in terms of service levels, consultancy revenues, contract negotiation and resolution of issues. Well qualified academically and with good interpersonal skills, you will have the ability to communicate effectively at all levels.

A high degree of professionalism and enthusiasm with a delivery-oriented approach is essential.

Your initiative and innovative ideas are welcome as you will contribute to the future growth, success and vision of the organisation.

This position will be well rewarded and if you are able to meet this challenge and have the qualities and experience to realise this career opportunity, please send your CV to: Alan Summers quoting reference FT0299 at S&H Consulting Limited, Lloyds Avenue House, 8 Lloyds Avenue, London EC3N 3AX. Tel: (0171) 481 1171. E-mail: alan@shconsulting.co.uk

BANKING FINANCE & GENERAL APPOINTMENTS

Employment Opportunity

We are a fast growing food and beverage company looking for a

BUSINESS MANAGER

to manage the development and implementation of the organization's marketing and distribution services efforts in the United Kingdom.

The successful candidate will possess:

- A thorough understanding of the fast moving consumer goods (FMCG) industry (especially the F&B segment) in the UK and EEC.
- An in-depth knowledge and experience (five years) in distribution, particularly throughout the "lower trade" independent-retailer network.
- The "entrepreneurial flare" required to establish the organization's operating and distribution structure within the UK.
- An ability to create and implement long-term strategic distribution plans in conjunction with the organization's global strategic plan.
- Academic requirements to include an Honours Degree (marketing major). Postgraduate qualifications in marketing will be well received.

Competitive salary will be offered commensurate with the level of experience. (Only short-listed candidates will be contacted)

Please submit your resume and expected salary requirement within 30 days to:

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P.O. Box 1062
Singapore 911833

SIBS
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BUSINESS SCHOOL

PROFESSOR AND DIRECTOR

Salary negotiable from £50,000

The Strathclyde Graduate Business School invites applications for the post of Director of the Strathclyde Graduate Business School.

The appointment as a Professor is on a continuing basis and as Director is for five years in the first instance, with the possibility of renewal.

The Director must have the management experience to deliver an ambitious vision for building on the present success of the Graduate Business School. The Director must also have an appreciation of the developing products and methods of delivery in the MBA, EDP and related markets, both domestic and overseas. Candidates should have a record of academic achievement in business education, preferably combined with experience of, and success in, the private or public sector.

For application form (Ref 1599) and further particulars (available on request in alternative formats for applicants with a disability) contact The Personnel Office, University of Strathclyde, Glasgow G1 1XQ. Tel: 0141-553 4133 (24 hour Voicemail Service). Applications closing date: 29 March 1999.

COMMITTED TO EQUAL OPPORTUNITIES

IUCN

The World Conservation Union

Founded in 1948, IUCN - The World Conservation Union brings together over 900 member States, government agencies and non-governmental organisations, along with a global network of conservation scientists, in a unique world partnership to ensure the integrity and diversity of nature and the sustainable use of natural resources. IUCN is an equal opportunity employer and welcomes applications from qualified women and men.

CHIEF FINANCIAL OFFICER (CFO)

The CFO is a member of the senior management team, reporting directly to the Director General in the headquarters at Gland, Switzerland. The role of the CFO is to ensure sound, forward looking financial management of a current annual budget of Sfr 92 million. She/he provides oversight and services for the finance function of the IUCN headquarters and regional and country offices in 42 countries, and leads a central team at headquarters responsible for overall financial planning, accounting, monitoring, asset management and quality assurance of the Union's financial resources.

The successful candidate has a degree at the master level and relevant discipline, or an equivalent professional qualification, e.g. CPA, and in-depth, varied international experience working in a decentralised organisation. She/he has proven leadership skills, strong interpersonal skills, and the ability to write concise finance and management reports. She/he has a strong international and cross cultural focus and is willing and able to travel to various parts of the world. Fluency in both written and oral French and English is essential, and a working knowledge of Spanish and other languages is desirable.

The submission of a C.V. will not be sufficient to qualify a candidate for consideration. The above listed requirements should be addressed and the names of three referees are to be furnished. Full position vacancy notice <http://iucn.org> - Job @ IUCN or mol@hq.iucn.org.

Interested candidates should apply before 15 March 1999 to: Director, Human Resources Management Division, IUCN-The World Conservation Union, 28 rue Mauverney, 1196 Gland, Switzerland. Fax: 41 22 999 03 38; E-mail: mol@hq.iucn.org.

GRESHAM COLLEGE
Founded 1597APPOINTMENT OF MERCERS' SCHOOL
MEMORIAL
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OPERA LA SCALA, MILAN

Money can't buy artistic integrity

Cash may have been lavished on Verdi's 'La forza del destino' but the company seems culturally bankrupt, laments **Andrew Clark**

Is La Scala bankrupt? Judging by the "sold out" signs at the great Milanese opera house, the answer must be no. Elsewhere in Italy, opera may be chronically underfunded, but there has never been a shortage of money at La Scala. It's a national heritage site which attracts preferential treatment. And there's no skimping or scraping in the new production of *La forza del destino*. All 11 scenes of Verdi's sprawling epic are treated to a different design, and sets as lavish as these don't come cheap. The scenic opulence of

guardian of Italian operatic tradition, Muti must have winced at that. *Forza* is his revenge. It represents a return to the staid, static traditionalism which gives opera a bad name. Forget the force of destiny; what counts in Milan is the force of the maestro.

And Muti leaves us in no doubt about his command of this performance. The overture is superbly drilled and contoured, as are the choral ensembles - above all the "Rataplan" at the end of Act 3, its clipped rhythms despatched with Donizettian precision. The flaw in Muti's approach is his inflexibility: his metronomic tempos give the performance a regimented quality, so that Verdi's melodies have no room to breathe. At least Muti has given up flailing his arms so wildly - perhaps out of deference to the spectators he now wears while conducting.

With the centenary of Verdi's death less than two years away, La Scala is trying to refurbish its repertoire - and *Forza* represented a gaping hole. It had not been staged in Milan since 1976, and its local performance history, outlined in a lavish programme book, is one of unbroken distinction, with names like Toscanini, Gigli, Tebaldi, Bergonzi and Caballé leaping off the page.

In the 1980s and early 1990s, La Scala's Verdian priorities lay elsewhere. But having returned to *Forza*, it finds itself unable to match the opera's demands. This production underscores the worldwide crisis in casting Verdi: there are simply not enough good voices to go round. At best you might fill two or three concurrent productions - but this *Forza* was not one of them.

For Milanese opera-goers the main attraction was José Cura's Alvaro. The Argentine heart-throb certainly knows how to squeeze the money-notes, but those who see him as the next Plácido Domingo would find scant evidence for it here. He shrank cautiously and looked strangely de-energised. Leonora was sung by Inés Salazar, a

young South American soprano with a chest register notably more commanding than her top: "Pace, pace" was correctly sung, but far from elemental. Giacomo Prestia's Padre Guardiano might have been reciting the alphabet for all the stand-and-deliver expression he gave the part, while Leo Nucci's Carlo has seen better days. Luciana d'Intino's Fredegunda was heavy rather than tart - and only Roberto De Candia, as the friar Melitone, showed any belief in his role.

But you can't blame singers for looking uninvolved when the director treats them as incidental to his stage-design. In a programme essay almost as indulgent as his production, De Ana explained how he had been inspired by the morbid visions of Valdes Leal, the 17th-century Spanish painter.

The result was a succession of dark, monumental friezes, beneath which any form of movement looked like an unwelcome disruption. This scenic pictorialism worked well enough in the big choral set-pieces, but it deadened the battle and inn scenes, and gave the intimate exchanges a stilted quality.

Where was the comedy and the tragedy? What about the issues that attracted Verdi to Rivas's Spanish Romantic drama in the first place - freedom, choice, social attitudes, racism, war? Verdi described *Forza* as a "modern opera". In its latest incarnation at La Scala, it looks like a relic from the Dark Ages.

Far from elemental: the South American soprano Inés Salazar as Leonora. Andrea Taroni/Teatro alla Scala

Forget the force of destiny; what counts in Milan is the force of the maestro

Forza suggests a budget of mammoth proportions, worlds away from the single-set stagings that have become the norm in the UK.

But if it's the artistic balance-sheet we're talking about, then bankruptcy is not too strong a word. La Scala's orchestra and chorus still know how to perform Verdi better than anyone else - *Forza* is reassuringly clear on that - but they seem to be performing in an artistic vacuum. This is the only Verdi to be staged at Milan this season, and it is woefully undercast - which makes you wonder why La Scala chose to stage it. Even worse, Hugo De Ana's sub-Zeffirellian production has nothing to say about the piece or its characters. It's some achievement to make *Forza* look boring - but that's exactly what La Scala has done.

Perhaps Riccardo Muti, La Scala's *de facto* artistic director, had his fingers burned last season by Graham Vick's *Macbeth*, a disastrous attempt to create a new visual aesthetic for Verdi at La Scala. As the self-appointed

Out of Hades and into the sickbed

OPERA

RICHARD FAIRMAN
Orpheus and Eurydice
ENO, Colston, London WC2

The "flu" was the prime culprit. Two of the principal singers were forced to pull out of English National Opera's revival of *Orpheus and Eurydice* on Wednesday - bad luck in an opera which only has three roles. This was only the second run of performances for this production at ENO, although those who saw it the first time round mostly thought it was doomed to failure whatever the cast. Gluck's best-known opera, for all its apparent classical simplicity, is far from an easy work to bring off and today's producers do not seem to be tuned in to its wavelength.

Almost all the good news about this revival was to be found in the orchestra pit. Having proven himself as an invigorating conductor in the baroque and classical repertoire, Roy Goodman duly energised Gluck's score with a racing pulse, punchy attack on the first beats of the bar, and bold "period"-style brass and drums. One surmises that he is less fond of slow tempos, as in his performances there generally are not any.

The drawback was that the music sometimes went too fast for the singers to utter their words with the appropriate sense of gravity. It is hard for Orpheus to lament in high tragic vein when the text is tripping over itself like a tongue-twister.

After music and poetry, dance also plays a part in operatic settings of the Orpheus legend,

which is no doubt why two notable choreographers have recently been attracted to it - but, my goodness, one wishes they were not.

After Trisha Brown's cutesy handling of Monteverdi's *Orfeo* at the Barbican, the only good thing

It is hard for Orpheus to lament in tragic vein when the text is tripping over itself

that can be said about Martha Clarke's contrasting treatment of Gluck's Orpheus opera is that it is very different.

Her dancers go into an ecstasy of avant-garde angst for the scene in Hades, twisting, jerking and twitching with a fervour that reminds us that 15 minutes of the wrong kind of modern dance

really can be hell. But the bit everybody remembers from last time is the tableau in the Elysian Fields, where the dancers return to pose in a state of grace and not a stitch else.

I hope somebody warned ENO's replacement Orpheus about this

the role, cleanly and confidently, but with noticeably more power at the top of the voice than at the bottom.

As the replacement Eurydice, Julie Urwin supported him without obvious weakness and in the circumstances it was not their fault that the crucial final act between Orpheus and Eurydice failed to get a real grip on the drama. Mary Nelson sang a nicely bright Amor.

The chorus, placed in boxes on either side of the stage, came across strongly. Arthur Stefanowicz and Margaret Richardson, the singers advertised for the title-roles, are expected to return before this run of performances is over.

Revival sponsored by Geoffrey C. Hughes Charitable Trust. Performances continue until March 31.

INTERNATIONAL

Arts Guide

BERLIN

OPERA

Deutsche Oper
Tel: 49-30-34364-01
Rise and Fall of the City of Magogony: by Kurt Walli, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Fittz and Isabel Ines Glathier; Feb 28.

CARDIFF

OPERA

Welsh National Opera
Tel: 44-1222-464 886
Hansel and Gretel: by Humperdinck. Conducted by: Wladimir Jurowski in a staging by Richard Jones, premiered in December. Cast includes Inésa Drum, Linda Kitchen and Nigel Robson; Feb 26.

EDINBURGH

OPERA

Scottish Opera, Edinburgh
Festival Theatre
Tel: 44-131-529 6000
Der Rosenkavalier: by R.

Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 27.
The Magic Fountain: by Delius. Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Feb 26.

HARTFORD

EXHIBITION

Wadsworth Atheneum
Pieter de Hooch (1629-1681): previously seen at Dutch Picture Gallery; this first-ever one-man show of the Dutch painter offers a reassessment of his work. Less celebrated than his contemporary, Vermeer, de Hooch was a pioneer in his own right, and a specialist in maternal and domestic subjects; to Feb 27.

LONDON

CONCERTS

Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Lorin Maazel in works by Schubert and Bruckner; Feb 26.

Royal Festival Hall
Tel: 44-171-960 4242
Philharmonia Orchestra: conducted by Christoph von Dohnányi in works by Haydn, Schumann and Beethoven; Feb 27.
DANCE
Sadler's Wells

Tel: 44-171-863 8000
Arc Dance Company: The Return of Don Juan, in a new staging by Kim Brandstrup, starring Irak Mukhamedov. With an original score by Kim Helweg; Mar 1, 2, 3.
Pacific Northwest Ballet: London debut for the company, which brings a mixed programme of American works (Feb 22-24), and Francis Russell's staging of Balanchine's *A Midsummer Night's Dream* (Feb 25-27).

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
Parsifal: by Wagner. Conducted by Mark Elder in a new staging by Nikolaus Lehnhoff, with sets by Raimund Bauer and costumes by Andrea Schmidt-Futrer. Cast includes Kim Begley and Jonathan Summers; Feb 26; Mar 3.

MANCHESTER

CONCERT

Bridgewater Hall
Tel: 44-161-907 9000
BBC Philharmonic: conducted by Edward Downes in works by Elgar; Feb 27.

MUNICH

CONCERTS

Philharmonie Gasteig
Tel: 49-89-5481 8181
Beethoven Academy: conducted by Christopher Hogwood in works by Mozart and Haydn, with piano soloist Stefan Vladar; Mar 3.

Rundfunkorchester des Bayerischen Rundfunks: conducted by Marcello Viotti in works by Puccini; Feb 28.
Sinfonia Varsovia: conducted by Yehudi Menuhin in works by Mendelssohn-Bartholdy and J. Brahms; Mar 2.

DANCE
Philharmonie Gasteig
Tel: 49-89-5481 8181
Bolshoi Ballet: mixed programme of Russian works; Mar 1.

NEW YORK

CONCERTS

Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
New York Philharmonic: conducted by Kurt Masur in works by Beethoven and Liszt. With piano soloist Hélène Grimaud, viola soloist Rebecca Young and the American Boychoir; Feb 26, 27.

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aaron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. Cast includes Philip Langridge and John Tomlinson; Feb 26.

PARIS

OPERA

Opéra National de Paris, Opéra

Bastille
Tel: 33-1-4473 1300
www.opera-de-paris.fr
Macbeth: by Verdi. Conducted by Gary Bertini in a staging by Phyllida Lloyd, with designs by Anthony Ward. Cast includes Jean-Philippe Lafont and Maria Guleghina; Mar 2.

Opéra National de Paris, Palais Garnier
Tel: 33-1-43439696
www.opera-de-paris.fr
La Clemenza di Tito: by Mozart. Conducted by Ivor Bolton in a staging by Willy Decker with designs by John MacFarlane. Cast includes Theo van der Walt and Christina Goeke; Mar 1.

POTSDAM

EXHIBITION

Cinema Museum
Linienstrasse: first major German exhibition of the film maker since the war. Includes films produced during the Nazi period and more recent photographic work; to Feb 28.

ROME

EXHIBITION

Palazzo delle Esposizioni
Tel: 39-06-474 5503
Poussin: Early Years in Rome. Display of 41 works produced between 1624 and 1628. The centrepiece is 'The sacking of the temple in Jerusalem by Titus' (1625/6), commissioned by the Barberini family and rediscovered by Denis Mahon, the show's curator. Includes major public

CONCERTS IN BRITAIN

Maazel shows off his talents

Wednesday's concert at the Barbican was a notable event in the London music calendar: it gave us the chance to hear the world's highest-paid conductor in harness with a great British orchestra. Lorin Maazel used to be a regular visitor to these shores, but over the past decade he has focused his attention elsewhere, to notable effect in Munich. It's unlikely the London Symphony Orchestra was able to pay him what the Bavarians do, but it compensated by giving him *carte blanche* with the programme.

As Maazel approaches old age - he will be 70 next year - he is eager to let us know he can still do everything as well as anyone else, if not better. In that respect he's still a child, albeit a prodigiously gifted one. And so his programme consisted of Maazel, Maazel and Maazel - composer, conductor and violinist. Maazel's self-regard, like his natural musical ability, is breathtaking.

The only real surprise was that he remains a classy fiddler - though it was not especially evident from Bartók's *Partita No 1*, which suffered from studied phrasing and uncertainty of pitch and rhythm. By the interval, however, Maazel and his violin were in full flow: Kreisler's *Gypsy Caprice*, using Maazel's own orchestration of the piano accompaniment, was fluently articulated, tender in tone, lavish in portamento and far from cold.

In between those two pieces came the UK premiere of Maazel's *Music for Violin and Orchestra*. It's a quaint programmatic rhapsody in an idiom - like that

of so many conductor-composers before him - about 50 years out of date. Maazel dutifully absorbs the tricks perfected by early 20th-century master orchestrators, yielding a mildly discordant pot-pourri of Walton, Ravel, Stravinsky and Shostakovich. Tuned bongos, flexatone and gypsy dulcimer are thrown in for good measure, but the piece outstays its welcome. *Much Ado About Nothing* would be the correct subtitle.

After all that in the first half, it's a wonder Maazel didn't insist on programming *Ein Heldenleben* (A Hero's Life) after the interval. What everyone had come for, of course, was Tchaikovsky's Sixth Symphony, and Maazel the conductor did not disappoint. The first movement's development was fast and furious, the waltz jolly elegant, the march a light-footed quick-step, the finale a perfectly tapered crescendo. The LSO was simply immaculate, no more so than in Andrew Mariner's *pppppp* clarinet solos, the first time I have heard them truly as marked.

No one makes conducting look easier or more controlled than Maazel - but there lies his problem. His sheer facility with music, and the supreme self-confidence that comes with it, means he has never needed to reach beyond himself - the prerequisite for a great performance. Maazel's Tchaikovsky compelled admiration, but it never, never cut to the heart. In the context of the *Pathétique*, that amounts to failure.

A.C.

Maxwell Davies reels in new audiences

Because Sir Peter Maxwell Davies grows ever more prolific with the advancing years (he turns 65 soon, and has already completed four new pieces since the New Year), he gets far less notice in Britain than his music deserves.

When it ceased to sound "shocking" here, by the late 1970s, it still seemed forbiddingly knotty; and there were newer and slicker trends to write about. Also much wilder, knottier ones: Brian Fennelly's *Intimately wrought music*, for example, and James Dillon's, are tougher and more opaque to innocent ears than almost anything Davies has composed.

Of late, it is America that has been discovering "Max". Just as his music turned toward transparency, oriented to "tonal" or at least "modal" roots, critics here began to think him less exciting than the latest breeds, whilst in America they were discovering him as a challenging original who makes an audible kind of sense. His recent San Francisco Symphony commission, *A Reel of Seven Fishermen* - a substantial work, a good half-hour long - had its UK premiere on Saturday in Manchester, with the composer conducting the BBC Philharmonic.

The BBC programme-book should have declared where the work came from, but meanly it didn't; so I must report that a reliable colleague, having heard a San Francisco tape, thought that it rendered some key events and passages more forcefully than the BBC orchestra. I don't doubt it, considering the exca-

tive brilliance - and the rehearsal-time - that the SFS can boast. In purely musical terms, nevertheless, the BBC Phil did Davies excellent justice; they were fine and sonorous, and subtle with it.

The score is a seascape with human figures, inspired both by a George Mackay Brown poem that captures a timeless moment of Orcaean life (a mother on a boat recognises that where 14 hands went to sea, only 12 have come home), and by a real, contemporary rogue-wave that nearly drowned Max himself on that island.

The music is built upon a Good Friday plainness. The central Reel, a dance of death, represents a storm and crisis; it is flanked by a brooding *Salve* Prologue and a chanted, reflective Epilogue. The orchestral sound is often extraordinary, though it doesn't trade upon any of the standard film-music effects (perhaps the glomskenspie was inspired by Debussy's *La Mer*, though). Particularly memorable are the slow, deep trombones and tuba, which suggest a relentless ground-swell.

I look forward to a London performance soon. The rest of this concert was conducted by Vasily Sinsky; a thoughtful account of Beethoven's Fourth Piano Concerto, with Kathryn Stott as bright-fingered soloist, and a searching, stirring one of Shostakovich's Sixth Symphony - beautifully played, with crackling quick movements.

David Murray

and private loans from Europe and the US; to Mar 1

SAN FRANCISCO

CONCERTS

Davis Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Jeffrey Tate in works by R. Strauss, Humperdinck and Honegger. With flute soloist Paul Renzi and horn Julie Ann Giacobazzi; Feb 26, 27.

SEATTLE

OPERA

Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott. The title role is sung by Sheri Greenewald/Ashley Putnam; Feb 27, 28; Mar 3.

TOKYO

CONCERTS

Suntory Hall
Tel: 81-3-3584 9999
Orchestre National du Capitole de Toulouse: conducted by Michel Plasson in works by Fauré, Saint-Saëns and Ravel, with violin soloist Daislin Kashimoto; Feb 28.
Tokyo Symphony: conducted by Hiroshi Wakasugi in works by Haydn and Mahler; Feb 27.
Yomiuri Nippon Symphony Orchestra: conducted by Rafael Frühbeck de Burgos in works by

Falla and R. Strauss; Feb 26

VIENNA

EXHIBITION

Austrian Museum of Applied Arts
James Turrell: retrospective of the American artist who incorporates the elements into his architectural designs. Including two site-specific installations, the show also features photographs and drawings of the extinct volcano in Turrell which has been working since the 1970s; to Mar 21.

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PHILIP STEPHENS

Liberated by Europe

Tony Blair has put himself at the head of Britain's pro-European forces. Resolute action now needs to follow this bold gesture

Sometimes we learn a lot more from watching politicians than from listening to them. It happened this week when Tony Blair mapped out Britain's path to the euro. What we heard was a prime ministerial statement liberally sprinkled with the familiar caveats and caution. What we saw was a prime minister liberated from his past timidity.

Mr Blair's demagogic told us something he has always said but we have never quite believed. He is the first occupant of 10 Downing Street since Edward Heath serious in his intent to make a success of Britain's relationship with its continental neighbours. Joining the euro within a credible time-frame is the *sine qua non* of this ambition. But it is only part of it. After lingering too long in the shadow of a charivari press, Mr Blair suddenly looks comfortable in the role of the pro-European. Here is a stage he wants to play on. And if this venture fails, so does its author.

In staking his leadership on participation in the single currency Mr Blair seeks a prize bigger than the vital yes vote in the referendum all but promised for the months after the next general election. To secure the consent of the people to give up sterling Mr Blair must remind the public through which Britain looks across the Channel. The European Union is seen now as an institution to be fought or feared. Mr Blair has to persuade the voters that it is something Britain is part of, a co-operative if also an occasionally competitive venture.

The moment, it must be said, is not the most propitious. The hostility of

British public opinion towards the single currency is well known. And these are distinctly awkward times to preach the gospel of Europe.

A few weeks ago Dominique Strauss-Kahn, France's finance minister, was heard on these pages declaring that Europe now laid claim to an equal voice with the US in the councils of international economic management. What we saw instead at last weekend's meeting of finance ministers from the Group of Seven industrial nations was a euro-zone fractured against itself. Europe's politicians could hardly be further from the central bankers they so recently adored.

Wim Duisenberg, the head of the European Central Bank, looks ever more like someone whose mission is deflation. A small man's *amor proprio* blinds him to the obvious truth that the Central Bank can succeed only if it builds political

legitimacy. Mr Duisenberg, we must suppose, will eventually learn. And the present arrangements are not immutable. The question is the price to be paid by the euro-zone's depressed economy in the meantime.

There are other conflicts from which Mr Blair cannot escape. The juggling over money and the common agricultural policy, which starts in earnest at today's EU summit in Bonn, will be a dispiriting affair. All logic says that each of the 15 governments must give something now to secure the mutual gain of European enlargement. But after this week's declaration, Britain's Euro-sceptic press has never been more eager to see Mr Blair fail. The necessary renegotiation of the rebate on Britain's contributions to Brussels has already been cast in the headlines as an abject surrender to the foreigners.

And it is here that we see



the scale and the importance of the task Mr Blair has now assumed. It is worth recalling that for all but a year or two of the quarter of a century since Mr Heath signed the treaty of accession, the European Union has been seen from British shores as a zero sum game. Harold Wilson and James Callaghan were seldom if not hostile. Margaret Thatcher put her name to deeper integration but always pretended otherwise. Her scepticism turned to phobia. John Major's good intentions were broken on the rocks of Black Wednesday when sterling was forced from the exchange rate mechanism.

We should not be surprised then that the nation's voters harbour misgivings. They have been told again and again that this is a battlefield on which Britain occasionally wins but more often loses.

Brussels, in tabloid parlance, is the place where malicious foreigners conspire against noble Anglo-Saxons. The slightest possibility that there might be advantage for Britain in marching in step has been inadmissible. Europe is something to be suffered, at very best endured.

Mr Blair has always believed the counter case. The difference after this week's statement is that he presents himself as its chief spokesman. No more hiding behind business, no more pretending that he might, after all, prefer the Queen's head on the currency to a place at the table in Europe. The sharing of sovereignty, as he said explicitly on Tuesday, is designed to enhance the nation's power and prosperity – just as the unrelenting isolation of his opponents would diminish it.

I cannot think of a serious politician beyond the shores of British Europhobia who would find anything remarkable in such an observation. But what is obvious to the French, the Germans or the Belgians has been a secret well hidden from Mr Blair's electorate.

So the campaign for participation in the euro must be painted on a wider canvas. Mr Blair understands this. It explains his eagerness to shape a new social democracy which

draws the best from European social policy and marries it with the entrepreneurial instincts of American capitalism. He needs his domestic audience to feel that the economic arguments are going Britain's way – as indeed they have been since long before his election victory.

Here too lies the explanation for Mr Blair's willingness to risk irritation and more in Washington by adopting the cause of European defence. His proposals for a European dimension to Nato, capable of military action independent of the US, have thus far passed almost unnoticed in his own country. But the project, now in the hands of a combined British, French and German taskforce, is of potentially momentous consequence.

The Paris government still cannot quite believe last December's St Malo declaration when Mr Blair put aside decades of traditional hostility to anything that put the slightest question mark over US military leadership. But nowhere else does he have a better chance to show that Britain is a beneficiary, rather than a hostage to, European co-operation.

Mr Blair will find it hard to translate such initiatives into a change of mood at home. The habit of shouting and sulking is ingrained. The mindset of the sceptic media turns every legitimate argument between Britain and its partners into a test of the whole enterprise. And more than once Mr Blair has fallen into the trap of waving aloft the national veto for the sake of a favourable headline.

And yet the transformation he now seeks is far from impossible. The pro-European case has never been put with force and consistency by a prime minister as popular as this one. And every opinion poll which says that the British distrust Europe also says they know they must be part of it. That is why an increasingly strident anti-Europeanism has failed to deliver votes to William Hague's Conservatives. Mr Blair can win. What's required now are words to match the body language.

LETTERS TO THE EDITOR

GM soya and maize not approved

From S. Leubuscher.

Sir, Allow me to point out an important error in Guy de Jonquieres' analysis "Genetically modified trade wars" (February 18). The US Food and Drug Administration does, indeed, require extensive testing of products prior to approval. The FDA did not, however, approve GM soya and maize.

These food crops were exempted from the FDA's testing regime as the result of a policy decision by the Reagan administration. Rather, they have been approved under a vastly simplified Department of Agriculture regime, which

merely asks that a crop be shown not to be a plant pathogen.

Mr de Jonquieres might also find it interesting to read through Monsanto's "scientific" submission for soya approval, for which no toxicological or ecotoxicological testing was carried out. This product, which is causing the greatest concern in Europe, was submitted to what were termed "animal wholesomeness" tests, all of them minimal in nature and sloppy in conception.

Indeed, Monsanto dismissed the significant degree of liver necrosis seen in their rat tests on the grounds that

necrosis was also found in the control group.

This is a serious issue, given the plans of the "life sciences" companies to ensure that all basic crops be modified within the next decade.

Articles that purport to take the underlying scientific and regulatory regimes into account therefore have a duty to go beyond repeating industry briefings.

S. Leubuscher.
60 Remsen Street,
Brooklyn,
New York 11201,
US

More ammunition for the eurosceptics

From Mr A. E. J. Killick.

Sir, The unfortunate juxtaposition of your editorial "Euro landmark" and the article "Germany's blame game" (February 24) does Tony Blair, the UK prime minister, no favours; nor, I suspect, the FT's policy on the euro.

Whether Germany's problems are structural, fiscal or monetary, being in the single currency has denied them the option of using interest rates to get the economy moving. While this problem was always seen as one of the fundamental drawbacks of the single cur-

rency, for it to come along so early in the life of the euro is particularly significant and must give ammunition to the eurosceptics.

Will the European Central Bank maintain its tough stance vis-à-vis the mightiest economy in Europe, or will it succumb to Châtelain's bully-boy tactics? If the latter, does it mean that when we are in the single currency, our economy will be decided in Bonn/Berlin or Frankfurt? What will happen when Germany is the only country in step?

Mr Blair proposes using my money (as a taxpayer) to

convince me that Britain must join the single currency. Will he also use my money to convince me that Britain should not join, so that when the referendum comes, I can take a fully informed decision? If we are moving into an economic Wonderland, perhaps Mr Blair would find it easier to consult Alice.

A. E. J. Killick,
managing director,
Cyclop International,
P.O. Box 541,
Croydon,
Surrey CR9 5QN,
UK

Wintering in Winnipeg is healthy and fun

From Ms Anna Maria Magnifico.

Sir, The Canadian city of Winnipeg and its outstanding citizens are evidently not well known to the Observer (February 4). Far from being a place that one would wish to avoid visiting due to a perpetual winter freeze, Winnipeg and other northern cities around the world join in celebrating their win-

ter season as healthy, productive and fun.

The Observer and readers of the Financial Times should also know that Winnipeg is the home of one of the world's foremost contemporary diplomats, Lloyd Axworthy, the Canadian foreign minister who has spearheaded such important initiatives as a new international criminal court

and the ban on landmines. So, next time you hear the place mentioned, think of the Man from Winnipeg, and applaud.

Anna Maria Magnifico,
former European trade and investment representative
for Manitoba,
Akbarwinderstraat 15 B,
3051 LA Rotterdam,
Netherlands

Number One Southwark Bridge, London SE1 9HL

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Developing a capitalist taste for litigation

Two court cases in Shanghai reveal the unexpected growing pains of the rule of law in China, says James Harding

Just as Qian Yuan was leaving Watson's, a pharmacy on one of Shanghai's busiest shopping streets, the store alarm went off. The 19-year-old university student was taken down to the basement and searched for shoplifting. She was scanned with a portable electronic detector. Then, much to her embarrassment, she says, the female security guard asked her to unzip her trousers, twice. On both occasions, nothing was found.

The incident might have remained nothing more than a personal humiliation, but Ms Qian decided to take Watson's to court.

Last September, she sued the store, which is owned by the Hong Kong-based company Hutchison Whampoa in which the magnate Li Ka-shing has a substantial stake, demanding compensation for her mental anguish. She said she was "picking up the legal weapon to demand justice and safeguard her human dignity".

The district court found resoundingly in Ms Qian's favour – Watson's was ordered to place an apology in Shanghai's most popular daily newspaper and pay damages of Rmb 250,000 (\$30,000), equivalent to roughly 20 years' pay for an average Shanghai worker.

Ms Qian is one of a growing breed of litigants in China. Where once disputes were handled by an official, adjudicated by a neighbourhood Party committee or, simply and frequently, left unresolved, these days more and more Chinese people are turning to the courts.

And, handsome pay-outs for personal injury, emotional distress and mental anguish are turning the business of accidents into something of a legal industry. When misfortune strikes, many Chinese people now call a lawyer.

Zhang Yuqi, a former Shanghai policeman-turned-attorney, says he was inundated with requests for representation after he secured a Rmb 130,000 compensation

last year for a client who walked into a glass wall at a department store in which foreigners had invested.

"Ordinary people have tended to solve their problems between themselves. Average consumers do not know how they can protect their legal rights through the courts. But, things are changing. They are beginning to realise how the law can help them," he says.

The signs that Chinese people are starting to show a litigious streak may suggest that a Communist-run country is moving towards a rule-based society. But, the cases themselves illustrate how very far China has to go – they have exposed a patchy set of legal statutes

reached the conclusion that foreign companies can offer rich pickings for local litigants.

The scale of the award for Ms Qian created something of a stir in Shanghai, simply because the size of the compensation payment seemed astronomical to ordinary people. But, the government seemed to consider the level of damages a mark of progress.

"Greater contact with other countries since the reforms and opening up began, has made the Chinese understand the importance of reparations," an official report explained.

More modest damages underestimated the extent of the victim's suffering and "did not teach others a les-

son was never body-searched. The Shanghai No. 2 Intermediate People's Court still judged that Watson's had violated the foreigner's dignity of Ms Qian, but decided the award was too high. Instead, the sum was reduced to Rmb 10,000.

This was "inexplicable" to Zheng Chuanben, the woman's lawyer. If the appeal court agreed that Watson's had violated Ms Qian's dignity, why did it lower the compensation payment by such a huge margin?

The speculation has been that pressure – either from other foreign retailers or domestic political interests eager not to displease Watson's chief owner, the powerful Li Ka-shing – were brought to bear on the Shanghai courts.

Indeed, a spokeswoman for Hutchison Whampoa, which owns the shop, acknowledges that there was "a lot of pressure from retail people. It was not just a Watson's issue. It became a supermarket operator issue". The spokeswoman left the Shanghai division of Watson's to handle the case. Certainly, she says, Mr Li was not involved.

Whatever the background to the revised verdict, it has left many people perplexed. Like many other areas of the law in China, the rules governing personal injury and emotional distress awards are a collage of statutes, regulations and directives that sometimes overlap, sometimes contradict and often leave large areas blank. "There is not a very clear basis in China's Civil Law for emotional compensation for personal injuries," says Mr Zhang.

Indeed, the experiences of the eager new band of Chinese litigants suggests that recourse to the rule of law in China by no means guarantees a transparent, level and fair hearing.

As a confused Mr Zheng, the lawyer for the body-searched Watson's shopper, asked simply after the compensation payment for his client was slashed: "Where are the legal reasons?"

'Ordinary people have tended to solve problems between themselves. Consumers do not know how to protect their legal rights through courts. But things are changing. They are beginning to realise how the law can help them'

and an often arbitrary court system.

Foreign investors or, more recently, Hong Kong's judiciary, who often despair at Beijing's erratic or partisan enforcement of laws and regulations, are not the only ones left scratching their heads at the uneven hand of the law in China.

Initially, the two big cases in Shanghai – the one suit against Watson's and the other against the Metro-Jinjiang store handled by Mr Zhang – reinforced suspicions that China operated one set of rules for local companies and another for foreign ones.

Damages for mental anguish until recently were a symbolic Rmb 100-200, says one lawyer at a leading European law firm. But, he says: "A two-tier system seems to be developing. The courts appear to have

son". Lawyers, too, have naturally been in favour of higher compensation payments, as they tend to be paid on a percentage of the final award.

Mr Zhang says overseas companies are not the particular targets of Chinese plaintiffs. He lists other recent cases in the city, such as the Rmb 120,000 damages paid by a local advertising company to the family of a man killed when one of their hoardings collapsed.

However, the Watson's case has more than just fostered speculation about the anti-foreign instincts of Chinese courts. For many, it has confirmed concerns about the independence – or lack of it – of legal judgment in China.

Last month, the case took a puzzling turn. Watson's appealed. The store has maintained that Ms Qian

PERSONAL VIEW JACQUES SANTER

Thumbs up to reform

The European Commission has made substantial mistakes in handling its finances. To regain credibility, it must implement radical change and open itself up to public scrutiny

Over the past few weeks we have witnessed a crisis of public confidence in the handling of the European Union's finances and in the European Commission itself. It is not the first such crisis, but it is by far the most serious in terms of its impact on public opinion.

I am determined to make this episode a catalyst for change that will enable us to transform the Commission, and indeed the EU as a whole, into the most efficient, transparent and responsive administration in Europe. That is why I have asked the 15 government leaders to discuss EU reform with me as a matter of urgency at their informal summit in Germany today.

The first step must be for the Commission to accept that mistakes have been made and to ensure they are never made again. The Commission is the main symbol of European integration in the eyes of most people. It must get its own house in order if it is to regain their confidence.

That confidence is indispensable if the Commission is to make a success of the tasks it faces this year. These include reshaping the EU's entire finances for the next seven years, overhauling Europe's agriculture and regional funding policies, and building Europe-wide guidelines for improved control of immigration, extradition and cross-border crime.

The second step must be for the Commission to respond boldly and positively to the requests made by the European Parliament when the assembly narrowly avoided censuring the Commission last month. That vote was a salutary reminder that the Commission's future credibility rests on its ability to manage EU funds soundly. I unwaveringly welcome the Parliament's action as a sign that democracy is coming of age at European level.

As a start, we have given a group of independent investigators carte blanche to examine all the Commission's staff and files, without exception. I challenge any



Santer (top, centre) has called for an accountable Commission

government in Europe to show that they have opened themselves up to this degree of public scrutiny. We shall implement the changes needed to respond to the investigators' recommendations as soon as they report on March 15.

We must go further than merely investigating past mismanagement and fraud. Next month we shall establish new rules governing the conduct and responsibilities of all staff, from the 20 Commissioners down to officials at all levels. We will draw on best practice across Europe to achieve this.

We shall also propose a broader remit for the anti-fraudsters, either by creating a fully independent European anti-fraud office or by beefing up the powers and independence of the Commission's anti-fraud unit. We have already tripled the size of this unit to 140 staff since it assumed investigative powers five years ago. It is now time to go further.

In April we will launch new policy options on staffing, including streamlined disciplinary measures for Commission employees found guilty of irregularities or fraud. And we will tighten up the criteria for appointing

national civil servants to top jobs in Brussels. Most recruiting is internal, but we still need outside staff in order to remain responsive to political sensitivities in each country. We will present clear rules to ensure these are limited to the very best candidates.

We will also clarify the rules on outsourcing specific tasks to independent experts. Far more alleged fraud is traced to organisations operating at arm's length from the Commission than to the latter's officials.

The third step must be to put fraud into its true perspective. To exaggerate the threat could lead to the ill-conceived creation of layers of control that make fraud detection more difficult. Out of 1,000 investigations conducted by the Commission's anti-fraud unit over the past five years, only 27 suspected cases of fraud or conflict of interest concerned Commission staff directly. When set against the projects and contracts handled through the EU budget each year, which number over 100,000, this is a drop in the ocean. But it is still 27 too many, and zero tolerance must remain our overriding goal.

Most important is the need

to improve co-ordination between all those who handle EU funds, from Brussels down to the smallest local authority. With over four-fifths of the €35 billion annual European budget spent by the 15 governments (not the Commission), the fight against fraud will fail if all actors do not pull together simultaneously.

The fourth step must be to redefine the core tasks facing the Commission – ranging from foreign policy and trade to employment, industry, the environment and competition policy – and then to remould the Commission to meet those tasks.

This means restructuring departments, overhauling financial management and building a more responsive and motivated workforce. I am determined to equip my successor next year with the blueprint for a modern, accountable Commission.

There is only so much the Commission can do on its own, however. For too long, it has had difficult tasks thrust upon it by the EU's member governments, without a second thought for the resources required to achieve the objectives. Too often the Commission feels it is being asked to drive a Mercedes with the engine of a Trabant. Any organisation required to spend money without enough trained staff to disburse it has to rely heavily on outside expertise. And where the spender is too overstretched to exert financial control over all outside operators, the fraudsters will never be far away.

This is not necessarily a plea for more resources: it may often mean that governments should ask less of the Commission. It is, above all, an urgent call for the European Union as a whole to match its tasks with the means to achieve them.

These are some of the lessons. Where they concern the Commission, I will ensure they are swiftly taken on board. Let us seize this opportunity to accelerate reform, rebuild trust and reshape the Commission for the future.

The author is president of the European Commission

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922185 Fax: +44 171-407 5700

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Genetic seeds of discord

The failure this week of talks in Cartagena, Colombia, on regulating trade in genetically modified (GM) crops and foods might, at another time, have elicited only passing interest. But the recent outcry in Europe about these products and the bitter recriminations at the meeting give the outcome greater significance. It not only shows how widely countries differ on this contentious issue; it could make solutions still harder to find.

The talks envisaged a treaty requiring exporters of GM products to obtain prior approval from importing countries. Developing countries, with European support, say they need such safeguards against health and environmental risks, which they lack the capacity to assess or control. But several farm exporting nations, led by the US, resisted the proposal, saying it could unduly restrict trade and conflict with World Trade Organisation rules.

Mutual mistrust among the participants helped turn discord into deadlock. The US suspected the EU of conspiring to use the talks to foment international opposition to GM products and justify closing its own market to them. The US, in turn, was widely accused of invoking world trade rules as a pretext to sabotage a plan which threatened the business of its biotech industry and farm lobbies.

The acrimony and polarisation

make still harder the task of reaching agreement when the talks resume in 18 months, and of bridging EU-US differences on GM products. Indeed, there is a risk that US obduracy in Cartagena will hand ammunition to those in Europe who claim its sole purpose is to promote the interests of American exporters.

The Cartagena debacle is the more regrettable, because at the core of the debate lie serious issues. International differences over GM foods are just one - admittedly glaring - example of growing tension between public concerns about health and environmental safety, on the one hand, and open markets and world trade rules on the other.

The problem arises, in part, from mutual misunderstanding and ignorance on both sides of the argument. Environmental and health policies increasingly affect, and are affected by, international trade and investment. Yet even in national governments, these policies are formulated with little reference to trade policy. The consequence is incoherence and conflict.

If the Cartagena talks have accomplished anything, it is to underline the need to narrow that divide. That task will not be easy, nor will it be achieved quickly enough to resolve current disputes over GM products. But tackling it now is the best way to reduce the risks of such discord in the future.

Telecom Italia

The transformation of Italian capitalism has been predicted, with unfailing regularity, in each of the past 20 years. There are reasons to think, however, that the attempt by Olivetti to take over Telecom Italia really marks such a watershed. The government can help ensure this transition - if it chooses.

Italy's big companies are emerging from their distinctive shadowy capitalism, in which family groups and politicians exercised a murky and ill-defined influence. Surely an aggressive, highly-leveraged bid by an entrepreneurial mobile phone company for a stodgy former state monopoly confirms Italy's emergence from the shadows?

Up to a point. The fact that Olivetti has been able to build a successful mobile telephone business, and thus dare to mount a bid for Telecom Italia, is indeed a triumph for liberalisation. The fact that the contest will be conducted under a sensible takeover code is another. The way both chief executives - Roberto Colaninno of Olivetti and Franco Bernabè of Telecom Italia - are using the rhetoric of shareholder value is a third.

But there are other signs that some things change slowly in Italy. One is the involvement, in preparing the Olivetti bid, of Mediobanca, the Milan merchant bank which is the symbol of old-style Italian capitalism. Another

was the early endorsement of the Olivetti bid by Massimo D'Alema, the prime minister. The government now says it is neutral, but Mr D'Alema, at least, does not quite seem to accept that Telecom Italia is outside the state's sphere of interest.

The truth is that in this battle it is Olivetti's opponent, Mr Bernabè, who best symbolises the future of Italian capitalism. He has managed his former charge, the oil company Eni, with explicit attention to shareholder value. Since his arrival at Telecom Italia three months ago, he has shown every sign of running it the same way. And he is promising that his principal anti-Olivetti manoeuvre, a merger with Telecom Italia's separately quoted mobile phones subsidiary, will be put to a shareholder vote.

Because the shares are widely spread, this battle will indeed - as Mr Colaninno says - be a referendum on the future of Italian capitalism. The government can best ensure an appropriate climate for this vote by backing its protestations of neutrality with deeds. It should declare its intention of voting its golden shares with the majority, and find an appropriate way of sterilising - or selling in the market - its 3.4 per cent remaining stake in Telecom Italia. Such moves will help ensure that this time the transformation of Italian capitalism will be more than just a slogan.

Bleak times

After months of deliberation, the International Monetary Fund will in the next few weeks decide whether to grant emergency loans to Romania. Without support, Romania will soon default on its foreign debt. But past IMF loans to Bucharest have been wasted because governments have failed to carry out promised market-oriented reforms. So what should the IMF do?

It is an uncomfortable question, as anyone dealing with Russia and Ukraine will recognise. Nobody wants to condemn some of Europe's poorest people to even greater poverty. But macro-economic aid only works if governments pursue reforms. The IMF should therefore tie any new loan to tough conditions. If Bucharest rejects the terms, the Fund should walk away.

The IMF has hitherto rightly been sceptical about the right of centre government's commitment to reform. Fine words have rarely been matched by deeds. But Radu Vasile, the prime minister, is now belatedly pushing his unruly coalition into action. In the last three months, he has privatised the telecoms utility and two banks. He is talking to Renault of France about selling a controlling stake in Dacia, the country's only carmaker. He has pledged to close loss-making state-owned enterprises, including 140 coal mines. And he has proved brave enough to arrest Miron Cojanca, the miners' leader

responsible for recent violent trade union protests. The IMF must keep up the pressure by tying loan disbursements to further privatisation and restructuring and the implementation of a tight 1999 budget.

The lesson from the rest of ex-Communist Europe is that reform works, as in Poland and Hungary. But sustained pursuit of market-oriented policies is required: things go wrong if governments falter with restructuring, as in the Czech Republic.

None the less, western Europe should not neglect relations with those neighbouring countries which refuse the IMF's medicine. Otherwise, rejection might lead to isolation. Macro-economic aid is not the only way of helping eastern Europe. Educational exchanges are valuable. So are schemes which support market-oriented institutions, such as stock exchanges, and those which promote the growth of a civil society, for example, through training for bureaucrats, judges, and court officials.

Joint military exercises foster mutual confidence. Trade and investment build bridges, even with the worst-managed economies. The final aim should remain the eastward enlargement of western Europe's economic and political structures. The doors must be kept open for eventual entry into the EU and Nato - however distant this might seem.

If the world survives the the past year's financial turmoil without collapsing into a recessionary heap, it might consider offering its prayer of thanks to that most caricatured of modern economic phenomena, the American consumer.

To the casual observer, she (and it is very often a she) makes an unlikely heroine. Blocking out two car-parking spaces in her gleaming new 5-litre sport utility vehicle; clutching the \$4 cup of steaming latte from the local coffee shop; shouting instructions to a broker on the mobile phone, or using up phone lines in airport lounges shopping electronically - this conspicuous consumption may not be socially and aesthetically pleasing.

But so far it has been the irrepressible exuberance of the US consumer that has kept the world economy going.

US spending on personal consumption rose by \$394bn in 1998, an annual increase equivalent to the total yearly output of one of the medium-sized economies of east Asia. Between the fourth quarter of 1997 and the fourth quarter of 1998, consumption expanded by almost 7 per cent in real terms, the fastest year-on-year rate of growth in 15 years. Spending on durable goods - all those fast cars and faster computers - rose by 13 per cent.

If US consumption had been flat rather than buoyant, the economy would have eked out a mere 0.7 per cent growth rate last year, rather than the 4 per cent-plus growth it achieved. And the global impact would have been to reduce world growth by almost half the already meagre 2 per cent it managed.

With the world still waiting for sure signs of recovery in Japan and anxiously watching indications of a renewed downturn in Europe, the American consumer may still hold the key. But as the consequences at home and abroad of such unbalanced growth become starker in the form of ever tightening labour markets, a surge in household debt, and a yawning US trade deficit, the critical question for policymakers in the US and around the world is: can US spending continue at this level?

This week Alan Greenspan, the chairman of the Federal Reserve, repeated his now familiar warning that the imbalances mean consumption growth must slow sooner or later. "The economy was stretched in a number of dimensions," he said, and gave a warning about the financial pressures which the strong spending growth had produced. But are the conditions that have driven US consumption likely to produce the sharp deceleration Mr Greenspan and most economists seem to be expecting?

To the rest of the world, the one overwhelming factor behind the strength of the personal sector has been the stock market. As Wall Street's bubble has inflated, the argument goes, it has given consumers a false sense of financial security. When, as most outsiders seem to believe, the bubble bursts, the downside of casino capitalism will become obvious: consumption will collapse and the US economy of the past few years will prove to have been as illusory as that of Japan in the late 1990s.

But this is an unduly simplistic view of the US economy. Yes, the wealth effect has played a role but it is far from the only one. Between 1996 and the end of 1998,



Americans gained an estimated extra \$5,000bn in the stock market. Conventional wisdom estimates that for every dollar of increased wealth individuals receive, they spend about 3 cents. That would suggest a consumption wealth effect of about \$500bn per year, or a little under a third of the total increase in personal consumption.

But there are four other factors that have contributed to the surge in consumer demand over the past two years. They suggest the US spending surge is more broadly based than the "it's-all-based-on-a-stock-market-bubble" explanation would suggest.

● The extraordinary growth in employment. The US labour market has absorbed 3m extra jobs a year since 1996, up from less than 2m per year in the first five years of the current expansion. The job growth has come from three sources: an increase in the population; an increase in the number of people joining the labour force, and a decline in the pool of unemployed workers. The last two have had a significant impact on consumption.

● The so-called participation rate, the proportion of the total population that describes itself as available for work, has risen from 66.6 per cent in 1996 to 74 per cent today, the highest level ever. This means that individuals formerly not working at all - homemakers, welfare recipients, retired people - are now joining the labour force in large numbers, increasing their income significantly as a result, and adding to consumption.

● The decline in the unemployment rate to a 29-year low of 4.3 per cent has not only increased consumption directly, but has provided an additional incentive to spend by dissipating the pervasive feeling of job insecurity that seemed to hold back spending growth in the early 1990s.

"The most important stock of wealth most people have is their labour," says Lawrence Lindsey, a former Federal Reserve governor. "When labour market conditions make people feel that stock of wealth is increasing long-term, they feel a lot better off."

● The first significant increase in wage growth in a decade. For most of the past 10 years, job insecurity led to moderation by workers in their wage demands, damping down spending. But between 1993 and 1998, average annual wage growth was about 3 per cent. And in the past two years, the figure was 4 per cent. There are not only many more Americans working, but after years of stagnation their pay is at

The most important stock of wealth most people have is their labour

last rising. ● Declining inflation. In 1998 especially this nominal wage growth was enhanced by a sharp fall in inflation to a rate well below what most people had anticipated. Falling oil prices, the strong dollar and continuing sharp declines in computer prices gave consumers big windfalls last year. As a result, real wages, bolstered by big productivity gains, increased at their fastest rate in 26 years.

● Falling interest rates. Lower inflation, and the international financial turmoil last year led to plummeting market interest rates. Average mortgage rates declined by more than one full percentage point in the 18 months to last December. Furthermore, the Federal Reserve has helped to maintain these low

rates. Instead of acting to curb rapid demand growth by pushing interest rates sharply higher, as it might have in the past, the Fed has taken a more accommodative approach.

How many of these factors will continue to support consumption in the next year or so?

Economists, including Mr Greenspan himself have been forecasting for years that labour force and employment growth is certain to slow. The current participation rate is thought to be close to its ceiling, and the unemployment rate is probably near its floor. Yet expectations of a dramatic slowdown in employment growth have proved wrong in the past, and the more likely outcome is still for slower - but reasonably robust - growth.

In any case, a slowdown in employment growth might be compensated for by wage acceleration. If the unemployment rate does not rise significantly from its current low point - which seems probable - workers may become emboldened to push for higher compensation. In any case, changes in employment conditions often take a long time to become apparent in spending patterns - witness how US workers remained uneasy in the mid-1990s, long after the end of the brief recession of 1990-91.

Inflation is expected to flatten out this year, and perhaps even edge up slightly, perhaps limiting some of those gains in real terms. But while interest rates have risen in the past few months as fears of economic collapse have eased, the time lags usually associated with interest rate movements may not produce a significant impact on spending - at least for this year.

The stock market may restrain growth a little, even if it does not crash. The most bullish Wall Street analysts are not expecting the 20 per cent plus annual gains

recorded in the past few years. If you add in other factors that could restrain growth this year - investment could weaken if profits falter, and the external sector could deteriorate further if Latin America or Europe were to slow significantly - then it becomes clear that the overall conditions in 1999 are less favourable for consumption than they were in 1998. But, equally, there seems no reason to fear an impending collapse.

That leaves one last worry which might restrain consumption, independent of all these factors: the condition of US personal balance sheets. While income growth has been strong in the past two years, consumption growth has been even stronger. The personal savings rate has fallen steadily to its lowest level since the 1980s - and is now negative to an unprecedented extent. This weakness is reflected in broader imbalances - a large private sector financial deficit, and a growing indebtedness of the US private sector to the rest of the world. All that has prompted concerns that the American consumers will be forced to retrench in order to restore their long-term financial balances to more orderly levels.

But all this takes no account of the partially offsetting effects of the enormous increase in household wealth in the past few years. Stock market assets, pensions and houses have all increased in value substantially, and consumers' net balance sheet positions are less immediately worrisome. Eventually, no doubt, Americans will be forced to unwind their financial imbalances. But for the foreseeable future, they seem on course to continue their spending binge, if not at the same frenetic pace of the last year, then at least enough to keep the US, and, perhaps, much of the world afloat.

OBSERVER

Tearing up the rule book

If the goalposts at Copenhagen soccer club FCK are as flexible as the management's views on corporate governance, players might just as well hang up their boots and give arch rivals Brøndby a clear shot at this year's Danish championship.

While Brian Laudrup and his team-mates are models of fair play on the pitch, FCK appears to play under its own set of rules with regard to the Copenhagen Stock Exchange.

Though the soccer club is under just the same obligation as any other publicly listed company to inform the stock exchange of any significant developments, the Danish media has an uncanny ability to get the story first. Last Friday, a local TV station informed its viewers that FCK had signed a DK50m sponsorship deal with brewer Carlsberg, but the club didn't get around to informing the stock exchange until Monday, by which stage the FCK share price had rocketed.

In November, the tabloids could tell the world that a homesick Laudrup was transferring from Chelsea long before the suits at the stock exchange were officially informed. The exchange is investigating the leaks, but patience is wearing thin, and the word on the street is that FCK

could be struck off unless it starts playing by the same rules as everybody else.

To the rescue

Gen Surayuth Chulanont, Thailand's new straight-talking army chief, also becomes, by tradition, the chairman of the Thai Military Bank, in which the armed forces have a stake. To the fortress head of the country's special forces, becoming a banker is a bewildering task, particularly with the bank scrambling to find new capital by the end of June to avoid being taken over by the government. And yet the general seems like a quick learner.

He promises reinforcements are arriving soon for the bank in the form of a "strategic partner" but says he can't elaborate. "One thing I have learned about the banking business is that there are so many secrets - maybe more than in the military."

Jerzy's move

The Polish government's failure to replace feisty EU affairs expert Maria Karasinska Fendler, who resigned just before Christmas as the head of Poland's key European Union integration unit, may have gone unremarked inside the country.

Not so in other European capitals. Poland's chief negotiator Jan Kulakowski is just back from a trip to Bonn, Rome

and Lisbon where he's been preparing the ground for Poland's EU membership negotiations. He says he's been asked everywhere when the unit will get a new head - and he's had to tell everyone he doesn't know. Brussels, in particular, seems increasingly exasperated about the failure to make an appointment - given that the unit is seen as crucial if the reforms needed for EU membership are to become a reality.

Kulakowski, who spent six years in Brussels as Poland's ambassador to the EU, says he thinks prime minister Jerzy Buzek is aware of the problem. Whether he intends to do something about it is another matter.

Bank on it

The International Monetary Fund appears still to have some work ahead of it if it's going to build better bridges with crisis-stricken Asian countries. At a conference organised yesterday by the Asia Society in Manila, the biggest applause of the day came after some advice given by Gabriel Singson, Philippine central bank governor, to a panel of fellow central bankers.

"The Philippines has had 24 programmes with the IMF covering 35 years. The first lesson I learned is you don't have to follow everything the IMF wants you to do," says Singson, who's set to retire in July after 43 years in central banking.

"Secondly, even if you agree and you don't comply, you can always ask for a waiver."

After Pangalos

You'd think Greece's top politicians would have lobbied to become foreign minister after the sacking of Theodoros Pangalos for the bungling of the Cooan affair.

Far from it. Two senior Socialists turned the job down almost as soon as it was offered. The first was defence minister Aleks Tsachatzopoulos, who makes no secret of his ambition to succeed Costas Simitis as prime minister. Next was Costas Laliotis, public works minister and another possible contender for the Socialist leadership.

Neither is much of a linguist and both prefer wheeling and dealing in Athens to diplomatic schmoozing around Europe. What's more, they're both working on government contracts due to be awarded soon. Why risk losing political clout at home because you're spending too long on a plane?

So step forward George Papandreu, the US-born son of the late Socialist prime minister Andreas, who's taking the job. With a sociology degree from the London School of Economics, he's a good communicator. And for the moment at least, he doesn't seem keen to follow the family tradition of being prime minister.

Financial Times 50 years ago

Competition From Germany and Japan. Manchester, Feb. 25. Competition to be expected from Germany and Japan was described here to-day by Colonel F.J. Ennill, Conservative MP for Altrincham, as "an ominous new development" and he said, foreshadowed considerable losses in hard currency earnings. He stated that the [UK Labour] Government had apparently decided that the German and Japanese economies were to be allowed to become self-supporting. But he doubted whether the implications of this policy were even yet being faced by the Government. He was addressing the Manchester branch of the National Union of Manufacturers.

Goodyear Factory Wolverhampton, Feb. 25. Pliofilm, a transparent package material, will be manufactured for the first time in Britain at a factory of the Goodyear Tyre and Rubber Company which was opened yesterday. The material, which can be used for wrapping anything from aeroplane engines to sandwiches, has been in use for some time in the United States, where it was first made by Goodyear Tyre in 1939.

THE LEX COLUMN

Rough ride

Had DaimlerChrysler's maiden results not come just after Volkswagen's gloomy prognosis, the market would hardly have knocked the shares down 4 per cent. Admittedly, Daimler merely met forecasts, while General Motors and Ford recently beat theirs. But the group still pushed up operating profits by a healthy 38 per cent to €8.6bn.

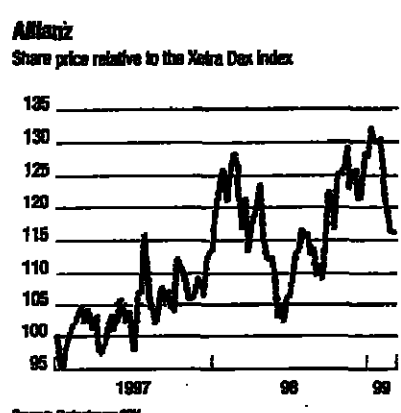
The real test comes this year, with investors expecting the first fruits of the merger. So far, the management is confident of delivering promised cost savings of \$1.4bn for 1999, rising to \$3bn in three years. Momentum within the company is strong, with a new, highly-profitable Mercedes S-Class luxury car and a new Jeep Cherokee in the US. Daimler's truck, aerospace and services divisions are also doing well. Industry conditions are less positive. Even though VW's pessimism is probably overstated, European and US car sales are forecast to fall slightly, with Asia and Latin America remaining weak.

As the background deteriorates, however, investors should value the relative certainty of growth based on internal savings more highly. Group profits are expected to rise over 20 per cent this year and over 10 per cent in 2000, more than twice the level of the peer group. Some of this is in the price: Daimler trades at a one-third premium to the European car sector. But with potential for the savings to be greater than expected, the shares still look attractive.

Allianz

Allianz is right to play hardball with the German government over tax, but not entirely for the right reasons. In principle the proposed reform of corporate taxes, which replaces a raft of relief with a lower general rate, makes sense. But if the net effect is to push up tax bills, companies will try to dodge the impact. Allianz estimates that its extra tax payments will be DM2.5bn over four years. This would add a quarter to last year's bill of about DM2.5bn, substantially outweighing any benefit from the planned reduction in the general corporate tax rate from 45 to 40 per cent.

So, let the negotiations begin. The government does have a point in spotting that German insurers have over-gener-



ous reserves for future claims and losses. But the rules are being tightened to such an extent that the German regime would become one of the harshest in Europe. Solutions should include less punitive rule changes and speeding up further reductions in corporate tax to 35 per cent. Another bargaining counter ought to be the taxation of gains on selling non-core holdings. Much of Allianz's excess capital is tied up in this way. A cut in the tax rate on disposals would encourage it and many other German companies to stop acting as quasi-investment trusts. The cash could be used for share buy-backs – the easiest way for Allianz to improve its single digit return on bloated equity – and acquisitions.

Chile

Could Chile become the next victim of currency speculation? The peso has slipped 7 per cent to touch 500 to the dollar so far in 1999, and the country's usually relaxed central bank has intervened twice this week in the money markets in support.

Chile certainly has some typical Latin American weaknesses – a rapidly slowing economy, a current account deficit of more than 7 per cent of gross domestic product, and a currency linked to the dollar by a "crawling peg". With an election looming in December, the central bank is under political pressure to cut interest rates again, even though that would further weaken the peso.

But Chile also has strengths its neigh-

bours lack, notably a record of free market policies, a well-run government and good public infrastructure. Most importantly – and in sharp contrast to Brazil – there is no debt problem. Total foreign borrowings of \$30bn are mostly held by the private sector and only a fraction is short-term. Against that, the central bank has \$15bn in reserves. And the relative cheapness of Chilean assets is attracting capital inflows – Duke Energy of the US has just bid \$2.1bn for a stake in one Chilean electricity group, while Spain's Endesa has tried but failed to raise its stake in another. While it never does to underestimate the markets' enthusiasm to take aim at currency pegs – even moving ones – Chile should prove a poor target for the speculators.

British Aerospace

Does the completion of the new aircraft delivery phase of the Al Yamamah contract leave a gaping hole in British Aerospace? An embarrassingly large cash outflow – £230m at the operating level – due to over-lumpier payments from the cash-strapped Saudi government highlights BAE's dependence on the deal. But this is slightly misleading. Since the year-end, the Saudis have paid BAE a large lump of cash. BAE is also sitting on a record £28m order book. Orders are up 27 per cent and represent over three years' sales. So only the crunch could quibble with the visibility of BAE's revenue stream. Nor does Al Yamamah disappear altogether: related service arrangements account for 11 per cent of the order book.

The real issue is how effectively BAE can translate these orders into profits. Integrating Marconi into its existing low-profit systems business should lift margins to the 10 per cent level achieved by the defence division as a whole. And BAE will be better positioned to compete for top tier prime contracting roles. But the news from Airbus is bleak. Although BAE may have made a profit on selling Airbus components, Airbus itself suffered an operating loss of about £125m last year thanks to its price war with Boeing. The long-promised modernisation of Airbus's structure would help improve its profitability. But BAE shareholders should not hold their breath.

SKI RESORTS PREPARE TO REOPEN AFTER TRAGEDIES ON THE SLOPES

Tourists flock to the Alps despite fatal avalanches

By Elizabeth Robinson

Ski resort workers in the Alps yesterday fought to reopen roads and facilities closed by avalanches in time for the arrival of tens of thousands of tourists this weekend.

Severe avalanches have hit the region this year, claiming more than 50 lives.

Leukerbad, in Switzerland's Valais canton, was the latest town to be hit when an attempt made to trigger a controlled avalanche went wrong. Swiss radio reported that 30 people were rescued with no injuries.

With snow conditions expected to ease this weekend, most resorts were hoping to offer some skiing, despite the string of fatal accidents.

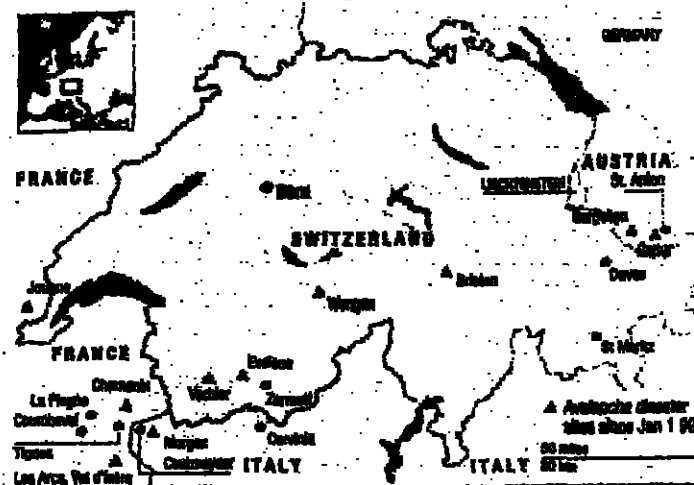
St Anton in Austria, which has had no ski-lifts this week, is expected to open today. Other resorts were operating only a fraction of their lifts. Lift operators typically only reimburse lift-pass holders if fewer than 5 per cent of lifts in the resort are working.

UK and continental European tour operators appeared divided on whether the avalanches were deterring skiers. TUI, the German travel company, said one third of its 1,000 bookings for ski holidays starting this weekend were cancelled by clients despite the operator offering to change destinations for free.

In contrast, French bookings remained strong for the coming week, the last of the school holidays. French operators said only 1-3 per cent of reservations for the next fortnight had been cancelled. UK tour firms said business was normal. Inghams, the biggest independent ski operator, expects to carry 6,000 skiers to the Alps this weekend. It has had to transfer 15 people who were due to go this weekend to Galtür, the Austrian town that has been sealed off since two fatal avalanches on Tuesday. It reported no other changes in travel plans. Yesterday the Galtür death toll rose to 27, with 11 people still missing.

Laurence Hicks, sales manager at Inghams, said: "We're optimistic that the weather is improving and we're telling people to stay calm and turn up as usual." Andrew Dunn, managing director of Ski Scott Dunn, reported an increase in last-minute bookings. "Resorts are opening up and getting better. Potentially they can have a very good week."

Mr Dunn attributes the lack of UK cancellations to living up to "the



Ski slopes open at top resorts

Country	% open	Country	% open	Country	% open
France	25	Switzerland	40	Austria	5
Germany	20	Italy	20	Spain	5
UK	5	Sweden	20	Norway	5
Denmark	5	Finland	20	Poland	5
Portugal	5	Belgium	20	Netherlands	5
Spain	5	France	20	Germany	5
Italy	5	Switzerland	20	Austria	5
Leukerbad	5	St. Moritz	20	Zermatt	5
Verbena	5	Garmisch	20	Innsbruck	5
St. Anton	5	Leukerbad	20	Galtür	5

Dunkirk spirit", but in reality this is more likely to be explained by UK tour operators' differing structure. UK skiers tend to pay in advance for inclusive packages, unlike their European counterparts, the majority of whom travel to ski areas independently and have nothing to lose from cancellation.

Travel around the Alps remains difficult. Swiss authorities said the Gotthard tunnel, which has been shut since last week because of avalanche danger, reopened for limited traffic. The San Bernardino tunnel was also closed after a truck accident, Swiss radio reported.

The Austrian Tourist Office in London said the road to Galtür would open tonight. Everyone was airlifted from the town yesterday. It said there was still a danger of avalanches in some areas. Winter tourism accounts for two thirds of Austria's total tourism receipts. Last season generated \$1.5bn in foreign currency.

The long-term impact of the fatal avalanches on Europe's ski industry could be severe.

Andrew Moody, director of research for travel and tourism at PricewaterhouseCoopers in Philadelphia, estimates tour operators stand

to lose tens of millions of dollars from cancellations, lawsuits and the implementation of contingency plans.

Mr Moody said: "We're getting reports from US resorts of increased requests over this past week."

"Europe is going to suffer a secondary impact from the risk involved. This type of thing sticks in people's minds."

He said that although avalanches also occurred in the US, especially in the west, they were less severe than in Europe.

"It's a combination of height, steepness, the way the snow blows over the top, and where the towns are built," he said.

"They do not cause the death toll and havoc that they have done in Europe."

The Ski Club of Great Britain is advising independent travellers driving to the Alps to be prepared to stay at lower resorts which offer a greater percentage of working lifts and better weather conditions.

Vanessa Haines, spokeswoman for the club, stressed conditions were still dangerous for skiers. "Pisteurs have so much experience. If they say don't go off piste, you have to listen to that."

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Workers in New Delhi were among about a million Indian bank staff on strike yesterday in a dispute over wages. Picture: Reuters

FT WEATHER GUIDE

Europe today

There will be heavy snow over central parts of Sweden and Norway. The south will be drier and milder with rain and sleet in places. Eastern Europe will have patchy, light snow flurries. Central Europe will be mainly dry, with sunny spells after any early mist or fog has cleared. France and the Iberian peninsula will be mainly dry and sunny. The eastern Mediterranean will have showers, but it will be dry and sunny in the rest of the Mediterranean.

Five-day forecast

North-west Europe will be unsettled with Atlantic fronts bringing spells of rain early next week. Rain will spread into Scandinavia, where it will turn to snow, and central Europe with fresh falls over the Alps. The eastern Mediterranean will be dry with spells of sunshine. The Iberian peninsula will have showers.



Situation at midday. Temperatures maximum for day. Forecasts by "PA" WEATHERCENTRE

TODAY'S TEMPERATURES			
Madrid	14	Barcelona	14
Paris	10	London	10
Rome	12	Athens	12
Amsterdam	8	Brussels	8
Frankfurt	10	Geneva	10
Stockholm	5	Helsinki	5
Oslo	5	Reykjavik	5
London	10	Edinburgh	10
Glasgow	10	Manchester	10
Birmingham	10	Cardiff	10
Belfast	10	Belgrade	10
Sofia	10	Bucharest	10
Warsaw	10	Prague	10
Vienna	10	Munich	10
Zurich	10	Basel	10
Geneva	10	Lausanne	10
Brussels	10	Luxembourg	10
Paris	10	Strasbourg	10
Amsterdam	10	Rotterdam	10
Antwerp	10	Brussels	10
Lyon	10	Marseille	10
Nice	10	Montpellier	10
Toulouse	10	Nantes	10
Bordeaux	10	Angers	10
Le Mans	10	Orléans	10
Reims	10	Metz	10
Strasbourg	10	Kiel	10
Dresden	10	Leipzig	10
Berlin	10	Potsdam	10
Warsaw	10	Cracow	10
Prague	10	Bratislava	10
Vienna	10	Budapest	10
Zagreb	10	Ljubljana	10
Sofia	10	Bucharest	10
Belgrade	10	Skopje	10
Thessalonika	10	Atenas	10
Corfu	10	Santorini	10
Mykonos	10	Smyrna	10
Antalya	10	Adana	10
Erzurum	10	Van	10
Van	10	Diyarbakir	10
Adana	10	Antalya	10
Smyrna	10	Mykonos	10
Santorini	10	Corfu	10



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COMPANIES & FINANCE: ASIA-PACIFIC

JAPAN COMPANIES STRUGGLE AS DOMESTIC DEMAND FALLS AND THE YEN'S STRENGTH HITS EXPORTS

Malaise deepens as profit warnings abound

By Alexandra Nussbaum,
Paul Abrahams and
Alexandra Harvey in Tokyo

The extent of corporate Japan's malaise was underlined yesterday, when a string of companies in a range of sectors issued profit warnings and restructuring programmes, on the back of collapsing domestic demand and the yen's impact on exports.

Mitsubishi Electric, the electrical and electronics

conglomerate, warned it would post a pre-tax loss, excluding exceptional items, of ¥80bn (US\$650m) in the year to March. That compared with a forecast of a ¥30bn profit. Net losses would be ¥40bn. The group said sales had been hit badly by the yen's appreciation.

The group revealed a ¥210bn restructuring charge at the parent company as well as a ¥35bn provision for the employee pension fund.

Bandai, the country's larg-

est toymaker, issued a profit warning citing poor inventory management and losses at overseas subsidiaries. Bandai reversed its estimated pre-tax profit of ¥500m to a loss of ¥7.5bn. The group expected to post a net loss of ¥18.5bn against forecast losses of ¥4.5bn.

Victor Company of Japan (JVC), warned it would post a net loss of ¥8.5bn for the year ending March 1999, against last year's pre-tax profit of ¥8.5bn. The company blamed sluggish consumer demand in Japan,

as well as weak sales in Russia, Latin America and Asia due to the high yen.

JVC said it expected consolidated sales of ¥930bn down from previous forecast of ¥960bn for the year ending March 1999, but better than last year's sales of ¥916bn. The forecast for pre-tax profits, excluding exceptional items, was revised down from ¥10.7bn to ¥500m, against last year's pre-tax profit of ¥8.5bn. The company revised down estimated

net income from ¥1bn to a loss of ¥8.5bn.

A collapse in capital investment in Japan, and a larger than expected decline in overseas chemical and power-plant projects hit Mitsubishi Heavy Industries, Japan's largest general machinery manufacturer.

MHI warned earnings before taxes and exceptional items would fall from ¥120.5bn to ¥43bn in the year to March, on sales of ¥2,500bn this year.

Ube Industries said it planned to cut its workforce by 2,000 to 14,000 by March 2002, and shift away from machinery and plant construction to focus on chemical and medical products. The group said pre-tax and net profit would be identical at ¥500m compared with forecasts of ¥2bn for the year ending March 1999. This compares with last year's pre-tax profit excluding exceptional items of ¥11.8bn and net profits of ¥4.4bn.

Indian see-saw tips from public to private

Foreign investors are deserting companies in the public sector after government interference, writes Krishna Guha

India's stock markets typically roar with excitement in the days before the government unveils its budget. But not this year.

Markets are flat ahead of tomorrow's budget speech, with foreign scepticism dulling the instinctive enthusiasm of Bombay speculators. It has been an encouraging start to the year. Foreign investors bought \$106m of Indian equities and debt in January - a sharp reversal from 1998, when nuclear tests, market contagion and protectionist policies prompted a \$348m outflow of funds.

Foreign buying helped to lift the benchmark BSE-30 index 7.4 per cent from January 1 to 3,281 yesterday. But appetite is limited and stock-specific.

It is a far cry from the heady days of 1994, when foreign funds drove the BSE-30 index to an all-time high of 4,643. Investment themes have changed too.

Foreign investors remain buyers of Indian software stocks and the local subsidiaries of multinationals - mainly in consumer goods and pharmaceuticals - which have consistently outperformed the market.

But attitudes towards the broad mass of Indian industry and finance have gone through several evolutions.

In 1994 foreign investors discovered the private sector. As the market fell, the private sector's flaws became all too obvious: uneconomic scale, too much diversification and a cavalier attitude to corporate governance. Investors turned to the public sector, quoted enterprises (PSE) in which the government was reducing its controlling stake.

These companies were big and focused in core sectors such as telecommunications, banking and oil. Moreover, there was a promising corporate governance theme: the prospect of ever-increasing commercial autonomy.

This prospect seemed assured in 1997, when the then United Front government bestowed the status of *navratnas*, or crown jewel, on nine of India's biggest public sector companies. The *navratnas* were promised enhanced freedoms to build world-class businesses.

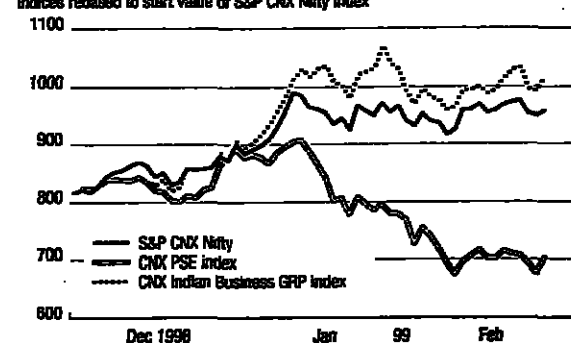
Today, the crown jewels are gathering dust. Investors are deserting the public sector and subscribing for new privatisation issues only at painfully low prices.

By contrast, there are signs of renewed interest in the private sector - which has sharply outperformed the public sector recently.

Cyclical trends explain little of the difference. Many

India's privatisation lottery

Crystal National Stock Exchange Indices
Indices rebound to start value of S&P 500 Nifty index



Source: India Index Services Private Limited, Securities & Exchange Board of India

analysts blame mismanagement of government finances and the stop-go privatisation programme.

This is a liquidity-driven market, said S. Swaminathan, head of the research company Iri. Public sector shares are illiquid, but suffer from a big overhang of stock which could collapse into the market at any time.

Liquidity concerns are reinforced by changing patterns of corporate governance. Confidence in private sector management has increased, faith in public sector autonomy has slumped.

The latest blow came in January, when the government, led by the Bharatiya Janata Party, instructed public sector oil and gas companies to spend large chunks of their reserves buying government-held shares in other public businesses.

The cross-shareholding plan is a serious negative, said a London-based fund manager.

Since January 1, shares in Indian Oil, Oil and Natural Gas Corporation and Gas Authority of India have each fallen by about 30 per cent.

Investors worry that other companies may have their coffers raided too. "Do not touch any public sector company with cash," said the head of one stockbroking firm in Bombay. He said the creation of the *navratnas* looked in retrospect a high-water mark, rather than a beginning, in government commitment to public sector autonomy.

The United Front government did little to implement its promises before losing power. Today only four of the nine *navratnas* are able to exercise the powers

granted to them two years ago - the rest still do not have the independent boards needed to authorise big spending decisions.

The haphazard process of public sector appointments has if anything become even more wayward. VSNL, the international telecoms company, offered privatisation shares to international investors earlier this month without a chairman in office.

There are repeated signs of backsliding on principles of public sector autonomy.

Shares in state-owned banks slumped last year on rumours that the government had ordered management to support troubled steel producers.

In January, a former

issues. Meanwhile, private sector industry is becoming increasingly shareholder-friendly, ditching old habits of empire-building for a more value-driven approach.

Restructuring is happening slowly, said Jyoti Varadhan Jaipuria, strategist at DSP Merrill Lynch. But private sector outperformance is constrained because it operates mostly in depressed commodity businesses - while the public sector offers more defensive plays.

A lot of restructuring is happening in industries that are not doing well, said Mr Jaipuria. You still may not see earnings growth.

However, some foreign investors are already buying India's private sector story, ahead of a turn in the commodity cycle. If global prices firm, others are likely to join them.

NEWS DIGEST

CONGLOMERATES

First Pacific announces management reshuffle

First Pacific, the pan-Asian conglomerate, yesterday unveiled a top-level management reshuffle triggered by the departure of Soedono Salim, head of its biggest shareholder group.

Mr Salim, a member of the Salim group of Indonesia, is stepping down to pave the way for management changes that will focus on core businesses. Taking up the reins is Manuel Pangilinan, First Pacific's managing director, and chief executive of Philippines Long Distance Telephone.

Mr Pangilinan began to restructure the company a year ago, selling off non-core assets and acquiring telecommunications and food businesses.

Meanwhile, the Salim Group has been reducing its stake - reflecting broader problems triggered by the Asian financial crisis - and yesterday both Mr Salim and a fellow director and founding investor quit the board of directors of First Pacific. They will both serve as advisers to the board. Thomas Yasuda, First Pacific executive director, replaces Mr Pangilinan as managing director. Louisa Lucas in Hong Kong

TOKYO-MITSUBISHI

Bank in headquarters deal

Bank of Tokyo-Mitsubishi announced yesterday that it planned to sell half of its Tokyo-based headquarters to Mitsubishi Estate Company, a related company, for ¥100bn (US\$820m) in a sale-and-leaseback arrangement. The move is intended to boost BTM's capital position before the end of the financial year on March 31, the bank said.

Unlike the other large Japanese banks, BTM does not intend to apply for public funds to boost its capital base, since it believes it has sufficient financial strength. It announced last autumn it would issue around ¥240bn preferred shares to related companies and private investors.

Separately, the bank revealed it made \$50m (\$95.9m) losses in its British securities subsidiary over the last two years. The losses, which have not yet been publicly announced, have arisen from proprietary trading in a range of sectors, particularly emerging markets, according to Juntaro Fujii, BTM director and head of Tokyo Mitsubishi International, the UK securities unit. The losses are the largest ever recorded by the UK group.

Earlier this week, BTM in Tokyo announced it would inject a further £185m of capital into the bank. This will raise TMI's capital base to £395.5m after the losses have been accounted for, he said. Gillian Tett, Tokyo

THAILAND

Generator moves to profit

Electricity Generating, the listed power producer unit of the state-owned Electricity Generating Authority of Thailand, said yesterday it recorded a net profit of \$16.1bn (US\$162m) in 1998, compared to a net loss of \$15.5bn the year before.

The swing was due largely to a foreign exchange gain last year of \$2.1bn, compared to a foreign exchange loss in 1997 of \$15.5bn.

Conglomerate revenue totalled \$110.2bn, up from \$108.9bn in 1997. Ted Bardeack, Bangkok



AMER GROUP PLC

NOTICE OF ANNUAL GENERAL MEETING

The shareholders of Amer Group Plc (the Company) are hereby invited to attend the Annual General Meeting to be held on Thursday 11 March 1999 at 2.00pm at Amer Group Plc's headquarters at Mikalilankatu 91, Helsinki.

Agenda

1. Matters which under section 10 of the Articles of Association fall under the authority of the Annual General Meeting.

2. The Board of Directors' proposal to authorise the Board to purchase the Company's own shares on the following conditions:

1) The shares may be acquired to improve the Company's capital structure and for use as payment when the Company purchases assets related to its business operations and as payment in respect of any possible corporate acquisitions in the manner and to the extent decided by the Board of Directors. The Board of Directors may also decide to cancel any shares purchased.

2) The authorisation is limited to a maximum of 1,216,344 of the Company's shares in issue, i.e. 5% of the registered total number of shares in issue, currently totalling 24,326,575 shares.

3) The shares shall not be purchased in proportion to shareholders' existing holdings, as the Company's shares are publicly traded on the Helsinki Stock Exchange and the shares may be purchased on-market.

4) The shares shall be purchased at the market price quoted for them during normal stock market trading hours. The shares shall be paid for within the period stipulated by the Helsinki Stock Exchange's guidelines and the rules of the Finnish Central Securities Depository Ltd. The authorisation to purchase shares will be valid for a period of one year from the date of the Annual General Meeting at which it is approved.

5) Since authorisation is limited to a maximum of 5% of the total number of shares in issue and votes thereon and the Company has one class of shares only, the purchase of shares will have only a limited impact on the allotment of shares and votes in the Company.

6) The Company's inner circle, as defined in the Companies Act, owned a total of 23.1% of the share capital and votes as at 4 February 1999. If they were not to sell their shares and the Company was to acquire the maximum number of shares allowable from other shareholders, i.e. 5% of the shares in issue, the inner circle would as a result of such purchases hold 24.3% of the share capital and votes thereon. If the warrants related to the 1994 issue of bonds with warrants, the warrants subscribed for by key personnel in 1998 and the convertible bonds issued in 1993 were all exercised, the Company's inner circle would as a result own 21.4% of the share capital and votes prior to a purchase of shares and 22.4% after a purchase of shares, respectively, provided that the inner circle do not sell their shares.

3. The Board of Directors' proposal to authorise the Board to dispose of the Company's own shares on the following conditions:

1) The authorisation is limited to a maximum of 1,216,344 of the own shares purchased by the Company.

2) The Board of Directors is authorised to decide to whom and in which order the acquired shares shall be disposed of. The Board may decide to place the shares in a proportion that deviates from existing shareholders' pre-emptive rights.

3) The shares will be used in payment for any purchases of assets related to the Company's business operations and any possible corporate acquisitions in the manner and to the extent decided by the Board of Directors. Moreover, the Board requests authorisation to dispose of the shares in the stock market in order to raise funds for the Company to finance investments and possible corporate acquisitions.

4) The shares will be disposed of at the minimum price quoted for them at the time of public trading.

5) The authorisation will be in effect for a period of one year from the date of the Annual General Meeting at which it is approved.

Copies of the annual accounts and the Board's proposal to purchase and dispose of the Company's own shares as well as the appendices thereto are available for shareholders to inspect at Amer Group's headquarters as of 4 March 1999. Copies of these documents will also be sent to shareholders upon request.

A shareholder whose shares have not been entered into the book entry system also has the right to attend the General Meeting provided that that shareholder was entered in the Company's share register prior to 1 March 1999. In those circumstances, the shareholder must at the Annual General Meeting present his share certificates or some other evidence that the right of ownership to the shares has not been entered into a book-entry account.

Notification of intended participation at the Annual General Meeting must be given to the Company not later than 9 March 1999 before 4.00pm local time either by writing to Amer Group Plc, Share Register, P.O. Box 130, FIN-00601 Helsinki, or by phoning, (+358-9-7257 8261/Ms. Mirja Vatanen). Possible proxies should be forwarded to the above address together with notice of attendance.

DIVIDEND PAYMENT

The Board of Directors propose that a dividend of FIM 1.00 a share be paid for the 1998 financial year. Dividends will be paid to shareholders whose shares have been entered in Amer Group Plc's shareholder register, administered by the Finnish Central Securities Depository Ltd, before the record date, 16 March 1999. The Board proposes that the dividend be paid on 23 March 1999.

Helsinki, 22 February 1999

AMER GROUP PLC
Board of Directors

Haseko asks for debt forgiveness

By Naoko Nakamae in Tokyo

Haseko, the Japanese construction group, yesterday revised its plan to ask banks to forgive some ¥394.2bn (US\$323m) of debt. It will now ask its creditors to forgive ¥250bn, while asking them to participate in a ¥40bn debt-for-equity swap.

Under the new plan, Haseko's three main banks - Industrial Bank of Japan, Mitsui Trust and Daiwa Bank - have agreed to forgive 53 per cent of their loans, or more than ¥180bn, to the troubled builder.

Haseko is appealing to 36 other financial institutions, including banks and life assurance companies, to also forgive a portion of their loans.

Haseko said it will not be asking the recently nationalised Nippon Credit Bank or Long-Term Credit Bank to participate.

Haseko said it was opti-

mistic its creditors would forgive the full amount, as the figures were drawn up amid extensive negotiation with these institutions. There is no fixed deadline, although the group will be hoping the talks will be resolved in time for the year end on March 31.

The move highlights the scale of the debt problems dogging the construction sector. Last year, Aoki, a medium-size construction group received ¥200bn of debt forgiveness, but JDC, another constructor, was forced into bankruptcy.

Haseko pledged in December to implement a 15-year restructuring programme, which will repay ¥315.5bn of debt through sales of affiliated property assets. It will withdraw from all overseas operations and cut its workforce by 20 per cent.

Yesterday, Haseko's share price closed up ¥8 or 17.78 per cent at ¥53.

Malayan Banking group net profits drop by 40%

By Sheila McNulty
in Kuala Lumpur

Malayan Banking, or Maybank, Malaysia's biggest bank, reported a 40 per cent drop in group net profit to M\$27.4m (US\$73m) for the six months ended Dec 31, 1998.

Net profit at the bank fell 27 per cent to M\$327.9m.

The results were among the best achieved in a financial sector battered by economic recession. The bank's risk-weighted capital ratio stood at 13.84 per cent and, at the group level, the ratio was 13.72 per cent - safely above the international minimum requirement of 8 per cent.

"The group's financial strength remains sound despite the economic downturn," said Amirsham A. Aziz, Maybank managing director.

The only fear analysts

have had about Maybank is that, because of its solid standing, it would be pressured to do more to pick up the slack of less-fortunate Malaysian banks that are struggling through the downturn.

The authorities are attempting to rescue all the institutions through the purchase of non-performing loans while, at the same time, pushing the banks to lend further still to revive the economy.

Economists fear banking system NPLs could peak this year at 30 per cent of all loans, though Maybank's should be far less.

The bank's net NPL ratio was 3.7 per cent in December, compared to 3.2 per cent in June, and the group's rose to 5.3 per cent from 4.5 per cent.

The bank has 92.6 per cent provisioning cover, and the group has 76.6 per cent,

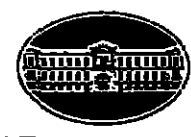
excluding collateral value. Loan loss and provisions charged at the group level during the period amounted to -M\$1.27bn, versus M\$315.7m in the year-earlier period. At the bank level they were M\$852.9m versus M\$483.1m.

Maybank expects its prospects to improve during the second half of the financial year.

Economists say there are early indications that the recession might be bottoming out though they are waiting for more conclusive data to be sure.

Maybank announced that it had received approval to merge its finance company in Singapore, Maybank Finance (Singapore), with the Singapore operations of Maybank.

The group wants to consolidate its Singapore operations to better utilise its resources.



NATIONAL BANK OF GREECE

ANNOUNCEMENT - INVITATION

TO THE BANK'S SHAREHOLDERS

TO REPLACE SHARES WITH

DEPOSITORY RECEIPTS FOR REGISTERED SHARES

Athens, 18 February 1999

The National Bank of Greece announces that by the Securities and Exchange Commission resolution No 1512/2.1999, the deadline for the replacement of shares with depository receipts for registered shares free of charge was extended to 30 April 1999.

Accordingly, shareholders who wish to replace their shares with depository receipts are invited to deposit their shares by 30 April 1999, in person or by proxy, with any one of the Bank's Branches (except for former National Mortgage Bank Branches). The corresponding depository receipts will be issued after the lapse of a reasonable time period and, on receipt of the relevant advice, they may either be collected from the same Branch or remain in the Bank's custody free of charge.

Please note that in view of the technical difficulties involved in trading shares while in the process of being replaced, shareholders are advised against exercising this option with respect to any shares they wish to sell in the immediate future.

Inquiries should be addressed to the Bank's Securities Custody Department, Tel Nos (01) 334 2241 and 334 2192.

NATIONAL BANK OF GREECE, S.A.

Wells Fargo & Company

US\$200,000,000
Floating rate subordinated
notes due 2000

In accordance with the provisions of the notes, notice is hereby given that for the interest period 26 February 1999 to 31 March 1999 the notes will carry an interest rate of 5.25% per annum. Interest payable on the relevant interest payment date 31 March 1999 will amount to US\$46.13 per US\$10,000 note and US\$40.65 per US\$90,000 note.

Global Agency and Trust Services,
Citibank, N.A., London
26 February 1999

CITIBANK



NOTICE TO THE HOLDERS

Hitachi Maxell, Ltd
U.S. \$70,000,000 - 1-1/2%
Convertible Bonds Due 2003

NOTICE IS HEREBY GIVEN, BY HITACHI MAXELL, LTD. (the "Company") pursuant to Clause 6 (B) of the TERMS AND CONDITIONS OF THE BONDS issued under the Trust Deed dated 21 December 1987 and by and between the Company and DAI-ICHI KANGYO TRUST COMPANY OF NEW YORK, as Trustee to the holders of the 1-1/2% Company's Convertible Bonds due 2003 that the Company has irrevocably called all of the outstanding Bonds for Redemption on March 31, 1999 (the "Redemption Date") at the Principal Amount thereof, plus interest accrued to the Redemption Date. The aggregate principal amount of the Bonds, outstanding as of January 31, 1999 was U.S. \$2,495,000.

The Bonds are also convertible at a price of \$2.951 for each share of Common Stock at the offices of the Conversion Agents listed below through the close of business on the Redemption Date (AT AN EXCHANGE RATE AS STATED IN THE OFFICIAL OFFERING CIRCULAR OF \$144.5 PER \$1). The closing price of the Common Stock on the Tokyo Stock Exchange at the close of business on February 15, 1999 was ¥1,942.

Bonds are to be surrendered at the offices of the Principal Paying Agent or at the Paying Agents listed below for payment of the principal amount due thereon together with interest accrued through the Redemption Date.

Offices of the Paying and Conversion Agents:
The Bank of Tokyo, Mitsubishi Ltd., Citibank, N.A.,
Financial City House, Building 725
12-15 Financial City House, 1931 Brucena
London EC2M 7BT, Brussels, Belgium
Ann: Custody Operations

Kreditbank S.A. Luxembourg
43 Boulevard Royal
L-2955 Luxembourg

The Bank of Tokyo, Citibank, N.A.,
Mitsubishi Ltd., Trust Company of New York
As Principal Paying Agent
2 Rector Street
New York, NY 10006
New York, NY 10048
February 26, 1999

NEWS DIGEST

BANKING

synergies. "From now on, we will be looking very closely where and how soon DaimlerChrysler will create those synergies," said Alice Kytka at Deutsche Genossenschaftsbank in Frankfurt.

Analysts are waiting for any signs that DaimlerChrysler is reaping savings from joint purchasing and common use of components and that it can boost sales.

LEX. PAGE 20

Editorial Comment, Page 19

On a dual strategy to recover its basic telephony earnings in the face of competition, reducing its payroll and pressing regulators for a rebalanced tariff structure.

plans at Suez Lyonnaise's next results announcement on April 1. As one analyst warned: "The shares could take a beating if he doesn't make things clear by then."

BANKING

Den Danske Bank, Denmark's largest bank, yesterday reported a 24 per cent rise in 1998 core earnings after bad debt provisions but it issued a cautious forecast for this year. Core earnings after provisions rose to Dkr3.91bn (\$578m), up from Dkr1.68bn in 1997. Provisions for bad debt and doubtful debts were down 20 per cent to Dkr511m. However, the bank said core earnings may fall this year as an expected slowdown in the Danish economy may lead to higher bad debt provisions. The bank recorded a pre-tax profit on ordinary earnings of Dkr5.24bn for 1998, a 13 per cent increase on the Dkr4.63bn achieved in 1997. But Den Danske, like Uni-bank, its closest rival in Denmark, saw net profits hit by higher taxation, which brought its net profit for the year down to Dkr3.95bn from Dkr4.30bn a year earlier.

Clare MacCarthy, Copenhagen.

ENGINEERING

Outlook bleak for MAN

Diversified German engineering group MAN yesterday underlined the slump in German capital spending when it gave a bleak outlook for future orders. Despite a 43 per cent rise in net profits to DM265m (£135m, \$148m) in the July-December period, from DM185m, and an optimistic profit outlook for the remainder of its fiscal year, falling exports and industrial equipment investments have caused its incoming orders to fall.

MAN projected a "moderate rise in full-year sales," which implied almost flat sales in the second half. In the first half, sales rose 6 per cent to DM10.92bn, from DM9.34bn a year earlier.

Uta Hamischfeger, Frankfurt

DaimlerChrysler AG
Stuttgart

Offer to Exchange the Shares of
Mercedes-Benz Aktiengesellschaft
Stuttgart
Stock Index Number 550 000 -
for Shares of
DaimlerChrysler AG
Stuttgart

Merger
Deimler AG, Stuttgart ("DeimlerChrysler"), and Deimler-Benz AG, Stuttgart ("Deimler-Benz"), have entered into a merger agreement on 4th August, 1988. Under said agreement Deimler-Benz is to be merged into DeimlerChrysler. The merger is to be effected pursuant to § 2 No. of the German Transformation Act against the granting of shares of DeimlerChrysler (merger with and into another company). The extraordinary general meetings of Deimler-Benz and DeimlerChrysler have approved the merger agreement on 22nd August, 1988. Pursuant to this agreement, Actions to set aside the resolution were filed by shareholders. Meanwhile these actions have been withdrawn following a settlement in court so that, with the entry of the merger of the two companies into the commercial register of the court in Stuttgart on 22nd December, 1988, Deimler-Benz has ceased to exist; its shareholders are now shareholders of DeimlerChrysler.

Exchange Ratio On expiration of the period specified on 8th November, 1993, the voluntary exchange offer of DaimlerChrysler to the shareholders of Daimler-Benz had been taken up for more than 98% of the Daimler-Benz shares (based on the subscribed capital of Daimler-Benz at that time). When the implementation of the Daimler-Benz capital increase against contribution in-kind was filed with the commercial register of Daimler-Benz, more than 95% of the Daimler-Benz shares (based on the subscribed capital of Daimler-Benz at that time) were also subject of such registration. Therefore, pursuant to the merger agreement between the two companies the former shareholders of Daimler-Benz, against submission of

(one) no par value share to bearer of Daimler-Benz with a pro-rata share in the subscribed capital of Daimler-Benz of DM45 each, together with dividend coupons Nos. 88 and so forth and talon,
- Stock Index Number 650 000 -
shall receive
1,005 no par value shares to bearer of DaimlerChrysler with a pro-rata share in the subscribed capital of DaimlerChrysler of DM5 each and with dividend entitlement as from the beginning of the first fiscal year of DaimlerChrysler ending on 31st December, 1996

The valuations performed by C&L Deutsche Revision Aktiengesellschaft, Frankfurt, and Schitzig Ernst & Young Deutsche Allgemeine Treuhänder Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Stuttgart, in accordance with the capitalized-value-method pursuant to HFA 27/1983 "Principles for Corporate Valuations" customary in Germany have come to the conclusion that the exchange ratios determined are appropriate. The auditor of the merger appointed by judicial order, BDO Deutsche Wertenzuehler Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt am Main, has also verified the exchange ratios and confirmed them to be appropriate.

If, upon the application of a shareholder of Daimler-Benz an arbitration proceeding is filed with regard to the merger, and the court orders compensation by way of an additional cash payment, DaimlerChrysler will be obliged to make a corresponding additional payment to all former shareholders of Daimler-Benz who still were shareholders of Daimler-Benz when the merger became effective, even if they have not filed a relevant application.

Implementation of the Exchange
Under § 71 of the German Transformation Act, Deutsche Bank AG, Frankfurt am Main, was appointed as trustee for the former shareholders of Daimler-Benz with regard to the shares of DaimlerChrysler to be issued.

We hereby submit a Third offer to the former shareholders of Daimler-Benz to present their shares, together with dividend coupons Nos. 68 and so forth and talon, by 31st March, 1999 at the latest

at a domestic branch office of the financial institutions listed below to exchange them for shares of DaimlerChrysler:

Deutsche Bank AG
(company account)

To the extent that former shareholders of Daimler-Benz have deposited their shares with a financial institution, the exchange will be effected without a specific client instruction to that effect. The

exchange agents listed above will, as far as possible, act as intermediaries for the compensation for fractional shares of DaimlerChrysler, if any. Since, principally, no shareholders' rights may be exercised in proportion to the fractional shares, the exchange agents will not be entitled to exercise such rights.

DaimlerChrysler will not bear any fees or expenses incurred by the former shareholders of Daimler-Benz in connection with the exchange.

Cancellation
Share certificates not submitted for exchange within the period of time specified will be cancelled by

DaimlerChrysler. The integral shares of DaimlerChrysler attributable to such certificates will be handed over by the trustee to the beneficiaries or deposited for their account. To the extent that fractional shares are attributable to such shares, the trustee will dispose of the shares of

DaimlerChrysler to be granted therefore at the officially quoted price for the beneficiaries' account through mediation of a stockbroker. The proceeds will be paid out pro-rata or deposited in the same

Trading — Since the merger has become effective, the share certificates of Daewoo Bank, which represent the

Since the merger has become effective, the share certificates of Daimler-Benz merely represent the claim for an exchange for DaimlerChrysler shares. The official quotation of the Daimler-Benz shares will, therefore, be discontinued.

The shares of DaimlerChrysler issued pursuant to the exchange have been admitted to trading with official quotation on all German stock exchanges.

This advertisement is being published on behalf of DaimlerChrysler by Deutsche Bank AG London. Deutsche Bank AG London is acting for DaimlerChrysler and no-one else in connection with the exchange offer and will not be responsible to anyone other than DaimlerChrysler for providing the

protections afforded to customers of Deutsche Bank AG London or for providing advice in relation to the exchange offer.

This document has been approved by Deutsche Bank AG London, regulated by the Securities and Futures Authority for the conduct of investment business in the UK, solely for the purposes of Section 57 of the Financial Services Act 1986.


Stuttgart, February 1999
The Board of Management

The Board of Management

... ..

New Issue February 25, 1999

This advertisement appears as a matter of record only.
All other securities have been sold.

 **MÜNCHENER**
HYPOTHEKENBANK eG
Munich

€ 400,000,000
4 1/8 % Public Sector Pfandbrief of 1999/2009
Series 557

German Security Code: 215 857
Coupon: 4.125 % p.a.
Maturity: February 25, 2009 or par
Listing: Bayerische Börsen, Munich (Aussicher Handel)

GZB-Bank
Gemeinschaftliche
Zweifelbank AG Stuttgart

CREDIT COMMERCIAL DE FRANCE

BANK Austria Creditanstalt

Österreichische Volksbanken-AG

**BANQUE GENERALE
DU LUXEMBOURG S.A.**

SGZ-Bank
Allgemeinbank

Caixa Madrid

Soll. Oppenheim & Co.
Kommunikationsbank und Aktien

KBC International Group

Unibank

**Caisse Centrale des Banques
Populaires**

WGL-Bank
Wiedensche
Gemeinschaftliche Zweifelsbank eG

**Landesbank Sachsen
Güterverkehrsbank**

ALM-Werbung & CO AG

UniCredit Italiana

touched via EUROCLIS.

Commonwealth Bank Australia Commonwealth Bank of Australia A.C.N. 123 123 124 Incorporated in Australia with limited liability	
U.S. \$7,000,000 Undated Floating Rate Notes exchangeable into Dated Floating Rate Notes and U.S. \$217,000,000 Floating Rate Dated Notes due February 1999 exchangeable into Undated Floating Rate Notes and U.S. \$176,000,000 Floating Rate Dated Notes due February 2000 exchangeable into Undated Floating Rate Notes	
Interest Rate	5.185% per annum
Undated Notes	(LIBOR 5.125 + 0.06%)
Dated Notes	5.03125% per annum (LIMEAN 5.03125%)
Interest Period	28th February 1999 to but excluding 31st August 1999
Interest Amount due Undated Notes per U.S. \$ 10,000 Note U.S. \$ 267.99 per U.S. \$250,000 Note U.S. \$6,697.29 Dated Notes per U.S. \$ 10,000 Note U.S. \$ 259.95 per U.S. \$250,000 Note U.S. \$6,498.70	

we verified the exchange ratios and confirmed them to be appropriate.

If, upon the application of a shareholder of Daimler-Benz an arbitration proceeding is filed with regard to the merger, and the court orders compensation by way of an additional cash payment, DaimlerChrysler will be obliged to make a corresponding additional payment to all former shareholders of Daimler-Benz who still were shareholders of Daimler-Benz when the merger became effective, even if they have not filed a relevant application.

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We hereby submit a Third offer to the former shareholders of Daimler-Benz to present their shares, together with dividend coupons No. 66 and so forth and talon,

by 31st March, 1999 at the latest

at a domestic branch office of the financial institutions listed below to exchange them for shares of DaimlerChrysler:

Deutsche Bank AG
(exchange agents)

To the extent that former shareholders of Daimler-Benz have deposited their shares with a financial institution, the exchange will be effected without a specific client instruction to that effect. The exchange agents listed above will, as far as possible, act as intermediaries for the compensation for fractional shares of Daimler-Benz to such shares, the trustee will dispose of the shares of DaimlerChrysler to be granted therefore at the officially quoted price for the beneficiaries' account through mediation of a stockbroker. The proceeds will be paid out pro-rata or deposited in the same manner as the integral shares.

Cancellation
Share certificates not submitted for exchange within the period of time specified will be cancelled by DaimlerChrysler. The integral shares of DaimlerChrysler attributable to such certificates will be handed over by the trustee to the beneficiaries or deposited for their account. To the extent that the integral shares are not attributable to such shares, the trustee will dispose of the shares of DaimlerChrysler to be granted therefore at the officially quoted price for the beneficiaries' account through mediation of a stockbroker. The proceeds will be paid out pro-rata or deposited in the same manner as the integral shares.

Trading
Since the merger has become effective, the share certificates of Daimler-Benz merely represent the claim for an exchange for DaimlerChrysler shares. The official quotation of the Daimler-Benz shares will, therefore, be discontinued.

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Stuttgart, February 1999

The Board of Management

COMPANIES & FINANCE: INTERNATIONAL

Semtex maker AliaChem suffers for sins of its parent

Robert Anderson on the collapse of holding company Chemapol

The AliaChem company, that makes Semtex explosive, the Czech Republic's most notorious export, is teetering on the brink of collapse after its parent Chemapol Group collapsed last month, threatening the country with its biggest corporate failure.

AliaChem is the principal subsidiary of holding company Chemapol Group AS which went down under a mountain of bank debt accumulated in the expansionist mid-1990s.

The collapse serves as an object lesson on the errors of Czech banks, which themselves now have to be bailed out as they head for privatisation next year.

Chemapol Group was the creation of Vaclav Junek, a multilingual, communist-era manager and reputed one-time spy, who rose to the top of the Chemapol trading company in 1991. It grew to become the Czech Republic's fourth largest company by revenue.

Mr Junek has been ousted as president of the group and is helping the administrator sort out its tangled finances. He went on a buying spree in the mid-1990s to build a chemicals conglomerate and found support from the predominantly state-owned banks that at the time were falling over themselves - with government encouragement - to lend to aggressive entrepreneurs.

"Maybe we were a little

under the influence of the general euphoria but the banks were very happy," Mr Junek recalls.

The project came unstuck in 1997 after a currency crisis pushed up interest rates, doubling the holding company's interest bill to Kč1.2bn (\$35.2m).

"Our plans were based on interest rates being stable or even falling," Mr Junek says. "The reality is totally different."

The banks, increasingly cautious ahead of privatisation,

The collapse serves as an object lesson on the errors of Czech banks, which now have to be bailed out as they head for privatisation'

tion, refused to extend more credits. At the same time the domestic economy was sliding into recession and exports were hampered by the strong crown.

The new acquisitions were also burdened by environmental costs and the group was slow to restructure to gain economies of scale.

In 1997 the holding company slipped Kč3.7bn into the red, while the group as a whole made a loss of Kč5.85bn on a turnover of Kč33.56bn. Mr Junek expects the holding company to make another loss of around Kč3bn-4bn for 1998.

The big banks became shareholders to guarantee their ever increasing loans but only when it was too late did they try to use this to impose some restraint on Mr Junek.

He was forced to dispose of some of the group's many non-core businesses such as the machinery division and media interests and to accelerate plans to merge four chemical companies into AliaChem, in which the holding company owns 52 per cent.

The banks insisted that Mr

Junek hire an Austrian manager, Hugo Sekyra, to head AliaChem and ring-fence it from the rest of the group.

However, Mr Junek sacked Mr Sekyra last October after less than a year and the Austrian later committed suicide after claiming the holding company was siphoning off money from its subsidiary through dubious transfer pricing agreements and by tapping its loans.

This was the final straw. Credit Lyonnais, the French bank, demanded repayment of part of its \$60m loan. Československa Obchodní Banka, the soon-to-be privatised former state trade bank, forced Chemapol, the original trading company, into insolvency in October for a debt of Kč3.5bn. In December it went after K800m guaranteed by the parent, swiftly winning a verdict last month that the company was insolvent.

Mr Junek was removed and the company, which is appealing against the insolvency, is now trying to settle debts estimated at Kč5.5bn, more than double its share capital.

The whole group's debt is around Kč20bn, making it one of the country's biggest corporate debtors.

The banks are desperate to rescue AliaChem from the wreckage of its parent, to which it is attached by a web of loans, collateral and guarantees.

The danger is that if all the creditors press their claims, the subsidiary could be drawn into what is bound to be a long and convoluted process.

"AliaChem is in great danger," says a spokeswoman for Investici a Postovní Banka, owned by Nomura Securities of Japan.

"There is considerable risk



of a domino effect." If so, this would lead to the country's biggest corporate failure, affecting 15,000 workers, a third of the entire chemical sector.

Mr Junek cautions: "AliaChem is working and I hope it can pay back everything it owes. But we must leave it in a quiet place, to give it time to restructure itself."

The banks and shareholders are naturally looking to the state to help them out of their difficulties. So far the Social Democrat government is staying firm and has drawn a distinction between helping individual firms and their tottering holding companies, such as Skoda Plzen, the engineering holding whose chief executive was removed this week.

But Miroslav Gregor, minister for industry, is already pressing for more money to help companies in what is likely to be a year of insolvencies.

Czech taxpayers may end up paying twice for the banks' mistakes - once to bail them out ahead of privatisation, and a second time to help out their most indebted clients.

Kirch set to take control of Premiere

By John Capper, Media Editor

Kirch Group, the privately-owned German media group, is close to taking control of the pay television venture Premiere in a move that could lead to the European Commission lifting a block on the enterprise.

CLT-Ufa, the Luxembourg-based broadcasting group jointly owned by Bertelsmann of Germany and Audi of Germany, is thought to be close to selling most of its 50 per cent economic interest in Premiere to Kirch.

People familiar with talks said that the deal was likely to value Premiere at about \$1,500 per subscriber.

Since Premiere has about 1.7m subscribers at the moment, this would value the enterprise as a whole at \$2.55bn.

If CLT-Ufa reduces its stake in Premiere to 5 per cent, as expected under the deal, it could clear the way for Kirch to operate Premiere as the most powerful pay television service in Germany, closing its own DFL service.

The European Commission last year blocked a proposal from Kirch and CLT-Ufa for both to raise their stake in Premiere to 50 per cent and for Kirch to transfer its pay television programming rights from DFL to Premiere.

CLT-Ufa said it could not comment on details of the talks, but confirmed that it was discussing a possible sale with Kirch Group, which has separately been in talks aimed at a financial restructuring.

Mediaset of Italy has been negotiating a possible deal with Kirch along with Prince Al-Walid of Saudi Arabia and News Corporation, the international media group headed by Rupert Murdoch. Kirch's losses from DFL have meant that it needs to raise cash from investors.

The German cartel office, which was instrumental in the blocking of the original deal, said it was encouraged by the possibility of change. "We have indications that things are moving in the right direction," said a spokesman.

NEWS DIGEST

PHILIPPINES

Ayala defies Asian crisis to maintain profit growth

Ayala Corp, the blue chip Philippine conglomerate, defied sharp downturns in its core industries of banking and property to maintain profit growth last year.

Ayala Corp's net profit edged up by 2.8 per cent to 6.57bn pesos (\$168m) in 1998, despite a sharp fall in profits at its property subsidiary Ayala Land. The 1998 net profit was boosted by net one-off gains of 1.8bn pesos from the sale of shares in Ayala Land.

While the results marked the second consecutive year of static profit growth, analysts said they confirmed Ayala Corp's ability to ride out the Asian economic crisis.

The main drag on profits was Ayala Land, which suffered a 38 per cent fall in net profit to 2.57bn pesos as a result of the depressed property market.

The downturn was cushioned, however, by strong rental income, which contributed 23 per cent of the company's revenues. Its strong financial position was reflected in cash reserves of 8bn pesos and a low gearing ratio of 0.27.

Elsewhere, the Bank of the Philippine Islands, Ayala Corp's banking subsidiary, lifted net profit marginally to 4.6bn pesos in 1998 from 4.5bn pesos, despite an 8 per cent contraction in its loan book to 108bn pesos.

Tony Tassell, Manila

BUILDING MATERIALS

Earnings drop at Pioneer

Pioneer International, the Australian building materials group, suffered a 12.8 per cent slide in net profit to A\$119.4m (US\$75.4m) in the half-year to December 31 and is forecasting lower earnings for the full year.

The company attributed the fall in interim profit to the fact it had yet to fully re-invest the proceeds from the recent A\$400m sale of its petroleum interests by acquiring new quarrying, concrete and asphalt businesses.

Pioneer's earnings in Australia and the US increased strongly, but profits in Europe and Asia were lower. In Europe, Pioneer said it maintained sales volumes but its margins had declined, prompting it to cut capital expenditure and restructure some businesses.

Russell Baker, Sydney

BANKING

Hapoalim to sell holdings

Bank Hapoalim, Israel's biggest bank, said yesterday it planned to sell two non-financial holdings, signalling a continuation of restructuring under a 1996 banking law.

Hapoalim opened talks to sell its 23.7 per cent stake in Ampel American Israel Corporation, an investment company focused on property. Ampel is listed on the American Stock Exchange, valued at \$148m, and wants to buy back its own shares. Hapoalim also plans to sell 23 per cent of Poshim Investments, another investment company, valued at \$248m on the Tel Aviv Stock Exchange.

According to 1996 banking legislation aimed at reducing concentration in the economy, Israel's biggest banks were required to lower stakes in all non-financial holdings to no more than 25 per cent of the company's equity by the end of 1998.

Hapoalim also said yesterday it would take a \$31m charge in the fourth quarter of 1998 for a voluntary retirement programme for 300 staff. Investors are waiting for annual results at the end of March to see how the bank has coped with a continuing economic slowdown.

Avi Machlis, Jerusalem

BANKING SOUTH AFRICAN INSTITUTION DOES BETTER THAN RIVALS DESPITE RISE IN BAD DEBT

Nedcor defies hard domestic market

By Victor Mallet in Johannesburg

Nedcor, one of South Africa's big four banks, yesterday announced a 27 per cent rise in net profit to R1.9bn (\$307m) in 1998 from R1.49bn the previous year, in spite of lower interest margins in the difficult domestic market and a sharp increase in provisions for bad debts.

The figures are on a pro forma basis because Nedcor has changed its year-end to

December from September. Actual net profit was R2.7bn in the 15 months to December, against R1.43bn in the year to September 1997.

Nedcor said non-interest revenue, which rose 23 per cent to R3.2bn in the pro forma 1998 figures, was helped by good performances from group treasuries and by growth in commissions and fees. Net interest income rose only 10 per cent to R3.92bn.

"We strongly welcome the recent interest rate reductions and anticipate a positive effect on distressed borrowers," the bank said.

Provisions for bad and doubtful debts were raised 37 per cent to R688m as a result of the South African economic downturn and the sharp increase in local interest rates when the rand came under pressure on foreign exchange markets last year.

Earlier this month Stan-

dard Bank Investment Corp, a rival banking group, announced a rise in net profit of only 8 per cent to R2.05bn in 1998.

Domestic banking operations improved their profits by 37 per cent, but the bank's international arm lost \$31m (\$49.6m), largely because of the Russian debt default.

FirstRand, the new group combining the financial services interests of RMBH and Anglo American, including

First National Bank, this week reported net profits of R1.14bn in the six months to December.

Nedcor's return on total assets rose to 1.74 per cent from 1.63 per cent, while its expense-income ratio dropped to 68.2 per cent from 68.4 per cent.

Stanbic's return on assets fell to 1.4 per cent from 1.5 per cent last time, while its expense ratio improved to 62.3 per cent from 63.4 per cent.



NATIONAL BANK OF GREECE

INVITATION TO THE BANK'S SHAREHOLDERS TO ATTEND THE EXTRAORDINARY GENERAL MEETING to be held on

Thursday, 18th March 1999, at 13:00 hrs

Pursuant to the Greek Companies Act No 2190/1920 and Article No 11 of the Bank's Articles of Association, and following Board of Directors decision dated 24 February 1999, the Shareholders of National Bank of Greece S.A., a banking Société Anonyme having its registered office at 86 Eolou Street, Athens, Greece, are invited to the Extraordinary General Meeting to be held on Thursday, 18th March 1999, at 13:00 hrs, at the Bank's Head Office at 86 Eolou Street, Athens, to discuss and decide upon the following matters:

1. Increase in the Bank's share capital against payment in cash; also giving an irrevocable authority to the Board of Directors to decide upon the settlement of any matters regarding the fractional rights to shares (rounding up) through the purchase/sale of fractional rights, as the case may be.
2. Resolution regarding a restriction of the Shareholders' preference right for part of the capital increase in order for the Bank's employees to be given the possibility to participate in the share capital increase.
3. Amendment of Articles 4 and 39 of NBG's Articles of Association as a result of the aforementioned share capital increase.
4. Settlement of a matter regarding the 1991 Convertible Bond Loan as some bondholders did not exercise their right to convert their bonds into shares on 16 November 1998.

Pursuant to the Law and the Articles of Association, Shareholders wishing to attend the Extraordinary General Meeting in person or by proxy should, by 12 March 1999, deposit their shares with the Bank (Head Office or Network Branches), or with the Deposit and Loans Fund or with any banking corporation in Greece.

Shareholders abroad may deposit their shares either with the National Bank of Greece offices in London, Rotterdam, Frankfurt, Düsseldorf, Munich, Stuttgart, Koeln, Berlin, Chicago, Boston, Cairo, Sofia, Bucharest, Tirana, Korca and Durres or with any recognized bank in the other cities.

Shareholders who are legal entities should, within the same time limit, also deposit their legalization documents provided for by the Law, unless such documents have already been deposited with the Bank, in which case, it is sufficient to mention in the proxy, where such documents have been deposited with.

The relevant share deposit receipts and the proxies should be delivered to the Bank within the same time limit.

Athens, 24 February 1999

By order of the Board of Directors
THE CHAIRMAN - GOVERNOR
THEODOROS VAS. KARATZAS

U.S. \$300,000,000
Scotiabank
THE BANK OF NOVA SCOTIA

Floating Rate Subordinated Capital Debentures Due 2085

Interest Rate 5.25% p.a.
Interest Period 28th February 1999
31st August 1999
Interest Amount due 31st August 1999
per U.S. \$ 10,000 Debenture U.S. \$ 271.25
per U.S. \$100,000 Debenture U.S. \$2,712.50

Credit Suisse First Boston (Europe) Ltd.
Agent

CITICORP

U.S. \$350,000,000
Subordinated Floating Rate Notes Due November 27, 2005
Notice is hereby given that the Rate of Interest has been fixed at 5.10% in respect of the Original Notes and 5.1675% in respect of the Enhancement Notes, and that the interest payable on the relevant Interest Payment Date March 31, 1999 against Coupon No. 191 in respect of US\$10,000 nominal of the Notes will be US\$48.75 in respect of the Original Notes and US\$47.55 in respect of the Enhancement Notes.

U.S. \$500,000,000
Subordinated Floating Rate Notes Due October 25, 2005
Notice is hereby given that the Rate of Interest has been fixed at 5.10% and that the interest payable on the relevant Interest Payment Date March 31, 1999 against Coupon No. 161 in respect of US\$10,000 nominal of the Notes will be US\$48.75.

U.S. \$350,000,000
Subordinated Floating Rate Notes Due August 14, 2011
Notice is hereby given that the Rate of Interest has been fixed at 5.125% and that the interest payable on the relevant Interest Payment Date May 20, 1999 against Coupon No. 51 in respect of US\$10,000 nominal of the Notes will be US\$49.25 and in respect of US\$250,000 nominal of the Notes will be US\$2,328.72

Global Agency and Trust Services, Citibank, N.A. London, February 26, 1999

National Westminster Bank
(Incorporated in England with limited liability)
US\$ 500,000,000 Primary Capital FRNs (Series "C")

In accordance with the Terms and Conditions of the Notes, notice is hereby given that for the Interest Period from February 26, 1999 to May 28, 1999 the Notes will carry an Interest Rate of 5.125% per annum.

The interest payable on the relevant Interest Payment Date, May 28, 1999 against coupon No. 54 will be US\$ 129.55 per US\$ 10,000 principal amount of Note and US\$ 1,295.49 per US\$ 100,000 principal amount of Note.

The Agent Bank
Kreditbank S.A. Luxembourg

Creditanstalt AG
US\$100,000,000
Subordinated Collateral Floating Rate Notes due 2005

Notice is hereby given that for the interest period 26 February 1999 to 26 August 1999 the notes will carry an interest rate of 5% per annum. Interest payable on 26 August 1999 will amount to US\$251.29 per US\$10,000 note and US\$2,512.89 per US\$100,000 note.

Global Agency and Trust Services, Citibank, N.A. London, 26 February 1999

Hongkong Bank
The Hongkong and Shanghai Banking Corporation Limited
(Incorporated in Hong Kong with limited liability)

U.S. \$400,000,000
PRIMARY CAPITAL UNDATED FLOATING RATE NOTES

Notice is hereby given that the Rate of Interest has been fixed at 5.4575% and that the interest payable on the relevant Interest Payment Date August 25, 1998, against Coupon No. 28 in respect of US\$5,000 nominal of the Notes will be US\$126.69 and in respect of US\$100,000 nominal of the Notes will be US\$2,738.65.

Global Agency and Trust Services, Citibank, N.A. London, February 26, 1999

U.S. \$600,000,000 Lloyds Bank Plc

Primary Capital Undated Floating Rate Notes (Series 3)

For the six months, February 26, 1999 to August 31, 1999, the Notes will carry an interest rate of 5.19% p.a. with a Coupon Amount of U.S. \$268.15 payable on August 31, 1999.

By: The Chase Manhattan Bank
London, Agent Bank

DIVIDEND NOTICE
DRACER DOME INC.

Notice is hereby given that a semi-annual dividend, being Dividend No. 45, of five cents (\$5) U.S. per Common Share, has been declared payable on March 22, 1999 to shareholders of record at the close of business on March 5, 1999.

Shareholders with addresses in Canada and Australia will be paid the equivalent amount in the currencies of those countries, converted at an exchange rate in effect as at the record date.

BY ORDER OF THE BOARD
J. Donald Rosa,
Vice President,
Secretary and General Counsel
February 18, 1999

SKIPTON BUILDING SOCIETY PLC

£150,000,000

Floating Rate Notes due 2002
For the three months from 25th February 1999 to 25th May 1999, the Notes will carry an interest rate of 5.3719% per annum.

The interest amount payable per £10,000 will be £135.02 on 25th May 1999.

AGENT BANK
BARCLAYS

ECU 300,000,000
Agence Française de Développement
Caisse Centrale de Coopération Économique

Floating Rate Notes due 2005

For the period from February 26, 1999 to May 28, 1999 the Notes will carry an interest rate of 5.250% per annum with an interest amount of £270.84 per ECU 10,000 and of £2,708.39 per ECU 100,000 Notes.

The relevant interest payment date will be May 28, 1999.

Agent Bank
PARIBAS
PARIBAS Luxembourg

NOTICE TO HOLDERS OF KOA Fire and Marine Insurance Co., Ltd.

U.S. \$70,000,000

1-3/4% Convertible Bonds Due 2002

NOTICE IS HEREBY GIVEN, BY KOA FIRE AND MARINE INSURANCE COMPANY LTD., of a termination of custodian and appointment of a new custodian, effective February 26, 1999.

Revisiting as Custodian: Tote Trust International Limited, 36 Queen Street, London EC4R 1BN

Appointed as Custodian: Tote Trust Company of New York, 280 Park Avenue, 35th Floor, West Building, New York, NY 10017

Dated: February 26, 1999

First Bank System, Inc.

US\$200,000,000

Subordinated floating rate notes due 2010

Notice is hereby given that for the interest period 26 February 1999 to 28 May 1999 the notes will carry an interest rate of 5.25% per annum and that the interest payable on the relevant interest payment date 28 May 1999 will amount to US\$131.71 per US\$10,000 note and US\$1,317.11 per US\$250,000 note.

Global Agency and Trust Services, Citibank, N.A. London, 26 February 1999

CITIBANK

U.S. \$250,000,000 Canadian Imperial Bank of Commerce
(A Canadian Chartered Bank)
Floating Rate Subordinated Capital Debentures due 2085

Notice is hereby given that for the six months interest period from February 26, 1999 to August 26, 1999 the Debentures will carry an interest rate of 5.25% per annum. The interest payable on the relevant interest payment date, August 26, 1999 against Coupon No. 26 will be U.S. \$268.15 and U.S. \$2,681.50 respectively for Debentures in denominations of U.S. \$10,000 and U.S. \$100,000.

By: The Chase Manhattan Bank
London, Agent Bank
February 26, 1999

CITIBANK

Mecklenburg Investment and Finance Company Limited

US\$115,000,000 Series 1

Secured Floating Rate Bonds 2004

US\$20,000,000 Series 2

Secured Floating Rate Bonds 2004

In accordance with the terms and conditions of the bonds, the rate of interest for the interest period 25 February 1999 to 25 August 1999 has been fixed at 6.125% per annum. Interest payable on 25 August 1999 will be US\$3,750.14 on each US\$100,000 principal amount of bonds.

Global Agency and Trust Services, Citibank, N.A. London, 26 February 1999

CITIBANK

NOTICE OF SURRENDER

US\$20,000,000 Series 1

Floating Rate Notes due August 2000

Surrender 28th August 1999
In accordance with the terms and conditions of the Notes, the interest rate for the period 28th February, 1999 to 28th August, 1999 has been fixed at 14.8888% per annum.

The interest amount payable on 28th August, 1999 will be ESP 7,476,225 (EUR 14,952,450) per ESP 100,000 Notes.

Agent Bank: BANCO BILBAO VIZCAYA, SA

26 February 1999


CITIBANK

CITIBANK





Ayala defies Asian crisis to maintain profit growth

Earnings drop at Pioneer

Mapoalum to sell holdings

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COMPANIES & FINANCE: INTERNATIONAL

Lonely Chevron is in no hurry to join the wedding party

Oil group may have missed merger boat, says Robert Corzine

The question of whether the western world's oil industry will be dominated by three or four super-giant companies in the next decade is one that is constantly being debated by oil executives.

Some see such an outcome as a logical conclusion to last year's wave of mega-mergers involving British Petroleum and Amoco, Exxon and Mobil, and Total and Petrofina. They argue that the fittest companies will continue to snap up less competitive ones.

Others, including Sir John Browne, BP Amoco's chief executive, believe there will be scope for companies of all sizes.

For those which have shunned consolidation, the question of whether second- and third-tier integrated oil companies can continue to attract and maintain investor support is of more than academic interest.

Chevron, the San Francisco-based US company, is a case in point. Soon it will be in a lonely - and some would argue exposed - position. Although it will be the second biggest US oil group after Exxon/Mobil, it will be dwarfed by the new energy superpower. But, in turn, its market capitalisation of \$51bn is almost double that of Texaco, its nearest competitor.

"We know it's not just a

question of market share," says David O'Reilly, Chevron's executive vice-chairman. "We also have to compete for investors' dollars."

That Chevron is alternately seen as a potential target and acquirer reflects its unique position. Late last year Royal Dutch/Shell was reported to have considered a possible takeover of Chevron and there is speculation that BP only just pipped Chevron to the Amoco post. A deal between Chevron and Texaco or other smaller US oil companies is frequently mooted.

Mr O'Reilly is quick to rectify the latest oil industry mantra that Chevron would do a deal if "we were confident it would create shareholder value. We're always looking at opportunities to do something in the merger and acquisition area, big or small."

But it is also trying to persuade investors that there is scope for a "value-creating, independent enterprise" of a size short of those in the "super league".

Some analysts question whether companies such as Chevron will be at a permanent disadvantage compared with the merged companies, which have promised to deliver billions of dollars-worth of cost cuts and synergy savings. "Is squeezing costs the only way to create

value?" asks Mr O'Reilly. "Companies also have to grow the earnings and asset bases. And in the great scheme of things, it is arguable whether Exxon getting bigger will give it more leverage over suppliers."

Chevron's strategy for retaining its independence - and investor interest - rests on several legs. It is midway through a \$500m cost-cutting exercise to address the deterioration in trading conditions. The growth element will come from concentrating investment on the international upstream exploration and production sector at the expense of downstream refining and chemicals.

Chevron's bullish view on longer-term oil prices contrasts with some oil men, who fear the crisis marks a downward shift in the fundamental price structure of the industry.

Mr O'Reilly says Chevron is prepared for a three year "oil price siege", although he rejects suggestions that the oil price could be permanently deflated. But confidence that the supply side of the oil price equation will come back into balance is not matched by an equally firm belief in demand trends: "What gives us thought is the demand side of the equation," he admits. "If prices don't come back then we'll have to revisit our plans."

Although Chevron



Biding his time: David O'Reilly says it's not just a question of market share

Ashley Ashwood

remains a decidedly "US-centric" oil company, it has been among the most ambitious and successful in breaking into difficult developing countries' low-cost oil reserves.

Kazakhstan, Angola and Nigeria feature prominently in the company's investment plans. So too does the Middle East, although Mr O'Reilly is cautious about the speed at which the big Gulf Arab oil producers will open to for-

ign capital. Chevron has strong historical links to Kuwait and Saudi Arabia.

"In Kuwait I sense the mood is to open up, but there is still some thinking that says it's not a good idea." As for Saudi Arabia, where Chevron drilled the country's first oil well, he says the debate is at a "very early stage", with people outside the kingdom putting "a more aggressive interpretation" of what the Saudi

government is seeking from the international oil industry.

But even with more investment opportunities than many of its competitors, Chevron has not been immune to the gloom that has settled over the industry. "Our people are very apprehensive, no question. So maybe it's an advantage that we're not also going through the dislocation of a merger."

Risk arm buoys broker

Marsh & McLennan, the world's largest insurance broker, yesterday announced a 34 per cent increase in net profits to \$796m last year and said prospects for increasing earnings were excellent, writes Andrew Bolger.

Ian Smith, chairman, said the risk and insurance services operations achieved solid organic revenue growth combined with strong earnings. Putnam Investments, a wholly-owned subsidiary, continued to increase profitability. Assets under management exceeded \$294bn at year-end, a 35 per

cent increase over 1997. Mercer Consulting Group was also said to have had "another very good year".

Mr Smith said the \$2bn acquisition last year of Sedgwick, the group's UK-based rival, strengthened its risk and insurance services and consulting operations.

Group revenue rose 20 per cent to \$7.2bn and earnings per share increased 26 per cent to \$2.93. Fourth-quarter revenue was up 20 per cent up at \$1.9bn. Net income increased 30 per cent to \$186m and earnings per share grew 30 per cent to 70 cents.

CANADA CHANGE OF STRATEGY

Frustrated banks aim for cost cuts

By Edward Alden in Toronto

Canada's largest banks had hoped that this year's annual meetings would be used to introduce shareholders to two new banks that would be ready to expand and compete on a global scale. But with their ambitious merger plans thwarted, the talk instead has been of strategic focus, discipline and cost-cutting.

In December the Canadian government rejected merger plans that would have transformed four of Canada's five biggest banks into two new giants able to compete with the biggest US and European banks.

Ottawa's competition authorities warned that the mergers would severely restrict domestic competition, which was more than enough for the Liberal government to reject the politically unpopular merger plans.

But as John Cleghorn, chairman and chief executive of Royal Bank of Canada, endlessly repeated during the merger debate, the status quo was not an option. Two months after the rejection from Ottawa, the banks are busy rolling out Plan B.

On Wednesday Royal Bank announced that it would cut C\$400m (US\$267m) in expenses over the next two years and reduce its corporate lending and investment banking activities outside Canada, while bolstering its wealth management and electronic commerce divisions.

Mr Cleghorn said the bank would focus on expanding "higher-return, relatively low-risk business where we have the expertise and potential scale to succeed".

The plan was unveiled one day after Bank of Montreal, its intended merger partner, announced both the resignation of its chief executive

Matthew Barrett and a dramatic restructuring plan to decentralise the bank into 82 separate lines of business, with each fighting to demonstrate its worthiness for future investments.

The bank intends to bolster its retail and commercial business lines while narrowing its corporate and investment banking to serve fewer clients in fewer sectors.

Canadian Imperial Bank of Commerce, which saw its earnings plunge last year due to trading losses at Oppenheimer, its New York investment bank, has already reduced staff, quit several lines of business and adopted what outgoing chairman Al Flood called a "very selective, niche-focused" capital markets strategy, concentrating on high-yield debt.

Only Toronto-Dominion Bank, that had intended to merge with CIBC, has escaped relatively unscathed because of its foresight - or luck - to have invested heavily in the discount brokerage business just before the boom in internet stock trading.

Despite Ottawa's rejection of the mergers, the banks are not making these moves out of desperation. With the exception of CIBC, each showed record profits in 1998 and first-quarter earnings for Royal, TD and BOM have been near or above expectations.

But the banks see enough warning signs to avoid complacency. Return on equity, the key measure of performance, began slipping towards the end of 1998, and productivity has not kept pace with the strongest US banks. Analysts say that without the scale to invest in all their lines of business, the banks will have to pick their ground carefully to maintain earnings in the future.

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Please call Southwark Council for an information pack on 0171 717 1697.

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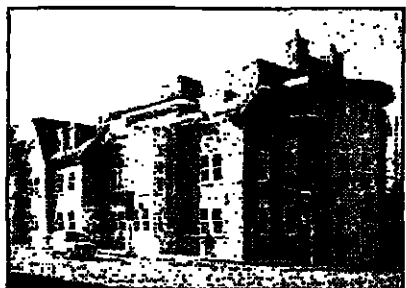
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NORMA COHEN
THE PROPERTY MARKET

Pursuing non-rental income

US companies are leading the way to broaden the appeal of real estate investment trusts by using taxable subsidiaries.

While the British Property Federation is hard at work lobbying for tax-transparent vehicles similar to US Real Estate Investment Trusts, the US Reits have a new mantra: "Tax us, please."

Why? Because Reit legislation, designed in 1962, is suitable purely for the passive investor in property. And the most successful property operating companies - whether in the US, France or Britain - are anything but passive.

This month, the Clinton administration put forward budget proposals that create the opportunity for Reits to run taxable subsidiaries which carry out a variety of services for tenants, and whose income is from sources other than rent. They would also be allowed to create taxable subsidiaries to engage in third-party management or development activities.

US companies are not the only property businesses seeking non-rental income. Workspace Plc, a UK company specialising in flexible industrial space, has designed packages for tenants for the purchase of insurance and other services, while Capital and

Regional, a retail and leisure property company, is looking to earn additional income from the branding of shopping centres.

But the largest US companies have led the way. Mike Lipsey, chairman of the Lipsey Company, a Florida-based group which advises property companies on strategy, says that companies are increasingly looking to bolster rental income with revenue from the sale of other services.

"The big mistake is thinking that the only play in real estate is rent," Mr Lipsey says. "We have a list of up to 100 different services which can be provided efficiently by real estate companies."

Non-rental space can be converted to storage use or space can be let with high speed internet access at an additional fee, for example.

The new tax proposals implicitly recognise that property companies are in the service sector as well. The problem is that current rules ban such activities on any significant scale. Maintenance of their tax-free status requires Reits to earn no more than 5 per cent of gross income from non-property sources. That

has forced them into a variety of corporate contrivances most significantly the highly-leveraged preferred stock subsidiary which pays interest on an inter-company loan from the parent Reit.

In these, the interest payments are charged off against income, so there is no profit to be reported, a decision which has irritated the US tax authorities and confused shareholders.

It has also blindsided those companies far-sighted enough to realise that there are more ways of extracting revenue than simply raising the rent.

The politics of tax avoidance has weighed on the minds of the industry since Congress revoked some tax advantages for "paired-share" Reits last year, which were the most common exploiters of loopholes.

But the danger of further erosion remains. Sam Zell, the billionaire property entrepreneur whose company - Equity Office Realty Trust and Equity Residential Realty Trust - have been among the most adept at generating non-rental income, has

thrown his weight behind the new tax proposals.

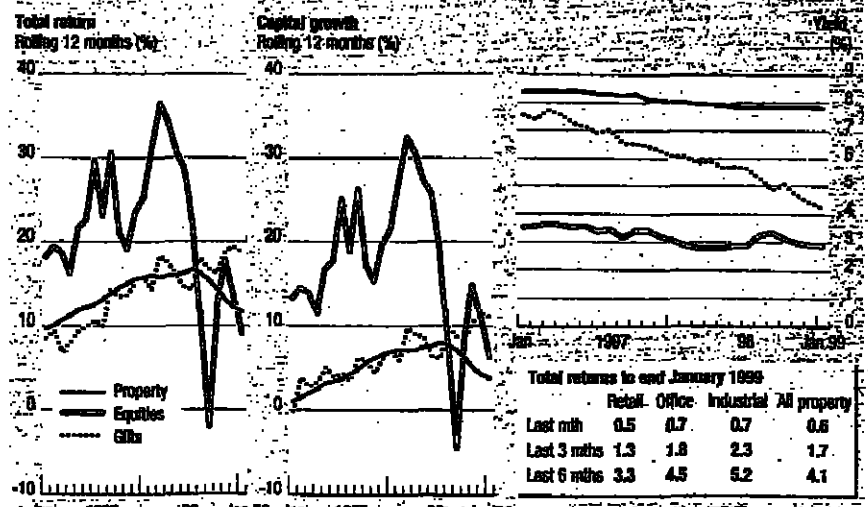
"If passed in some form like this, it would effectively eliminate all of these Rube Goldberg structures that Reits have attempted to use to get around the passivity requirements of the Reit law," Mr Zell said in a recent conference call to clients of Lehman Brothers, the US-based investment bank.

The administration's proposals, which it says will raise \$140m (86m) during five years, create two types of facilities. First, a Qualified Business Subsidiary for non-tenant related income such as third-party management. Second, the Qualified Independent Contractor Subsidiary which may provide an array of services to tenants. Subsidiaries may provide up to 15 per cent of income.

Steve Hash, real estate securities analyst at Lehman Brothers, says the new tax code is a "win-win" proposal.

"Over time, Reits would like to grow to that percentage (of non-rental income) as much as they can," he says. "It is not just the big companies that will benefit. It is the smart companies. It allows you to make money with your head."

IPD UK monthly index for January 1999: showing rising line with equities



Slide halted

A fall in the All-Property yield for the first time since July halted the slide in total returns which began in the second half of last year.

Over rolling three-month periods, total returns through January held steady at 1.7 per cent.

In the 12 months through January 1999, property out-performed equities with returns of 11.7 per cent, but badly lagged gilts which returned 18.8 per cent.

From today, IPD data in the Financial Times will be in a format making it easier to compare property performance with other asset classes.

COMPANIES & FINANCE: THE AMERICAS

ENTERTAINMENT MTV LEADS GROWTH

Viacom sales surge boosts profits 36%

By Christopher Parkes
in Los Angeles

Operating profits at Viacom surged 36 per cent to \$230m in the closing quarter of last year as revenues rose across the board, growing 15 per cent to \$3.34bn.

The entertainment group said sales growth was led by its MTV network, Paramount Pictures and Blockbuster video rental chain.

Sumner Redstone, chairman and chief executive, said plans announced yesterday for a 2-for-1 share split and the move of the company's listing from the American Stock Exchange to the New York Stock Exchange reflected his optimism that Viacom could sustain its momentum.

Group cash-flow, defined as earnings before interest, taxes, depreciation and amortisation, rose 24 per cent to \$502m, although net income of \$36.3m fell short of

analysts' forecasts, yielding 10 cents a share compared with predictions of 13 cents.

Blockbuster, which is to be spun off in the next few months through an initial public offering, reported an increase in revenues of 20 per cent generating 26 per cent more cash-flow.

Same-store sales rose 15 per cent in the quarter, bolstered by aggressive marketing and a revenue-sharing agreement with film studios.

Paramount and MTV both reported record results, as the film division benefited from the overseas release of *The Truman Show* and *Saving Private Ryan*, its co-production with DreamWorks. *Titanic*, the most successful film and video release on record, also continued to contribute a year after its launch.

Paramount's cash-flow increased 26 per cent to \$50m on revenues up 13 per cent at \$1.2bn.



Big picture: Saving Private Ryan was a huge success for DreamWorks and Paramount

Benphoto

MTV, named this week to lead Viacom's drive into internet entertainment and commerce, reported a 21 per cent increase in revenues to \$617m, and cash-flow up 15 per cent at \$32m. The main engines of growth were MTV and VH1, the music-based cable networks, and

Nickelodeon, the children's network that is the most-watched cable service in the US.

Consumer publishing, the remnants of a broad-based publishing business reduced by the sale last November of its educational and professional departments, reported

revenues up 9 per cent and cash-flow of \$36m for a 30 per cent gain.

Revenues for the year, which saw Viacom's stock price almost double to \$88, rose 13 per cent to \$12bn, and cash-flow and operating income rose 20 per cent and 31 per cent respectively.

Reader's Digest plans big strategy changes

By John Authers in New York

Reader's Digest, publisher of the most widely circulated magazine in the world, yesterday announced a sweeping change in strategy, including an upgrade of its operations on the internet, in a bid to reverse years of declining earnings.

The company will also seek to diversify into product lines that can be sold via direct marketing, including pharmaceuticals and financial services. It will also try to develop new distribution channels, including direct response TV and new forms of direct mail.

Most of this will be done through joint ventures, and the company will also look for acquisitions, particularly of magazine publishers outside the US. However, the company refused to comment on reports that it was negotiating an ambitious joint venture with Time Warner, the media group.

Thomas Ryder, who was brought in as chief executive from American Express last year after the abrupt resignation of his predecessor, said he would also consider an initial public offering for the company's interests "provided the market stays irrational".

The company will invest at least \$100m into websites which will be re-branded or co-branded with the Reader's Digest name.

He said the strategy was to focus on the over-50s "baby boom" generation where the company's flagship magazine has its greatest readership. Its new product lines have been chosen to capitalise on the strong elements of trust that are carried with the Reader's Digest brand name. These will focus on "home, health, family, finance and faith".

According to Mr Ryder: "The products we are looking to as extensions are trust-based products. People who need to trust a purveyor will find the Reader's Digest name very powerful."

He said that the company expected its revenue to fall over the next year, and that it would then introduce new product lines into a more profitable base. Its internal targets are for revenues of \$8bn in 2004 (double its level at the end of last year), and operating profits of between \$500m and \$600m - a strong increase from the \$100m recorded last year.

Next year, it hopes to enter the directly marketed pharmaceuticals business, and is already in discussions with potential partners and acquisition targets. It will also look for financial services, where it will be the branded supplier of products manufactured by partners.

Credit cards, retirement savings products and insurance are the most important.

CBS ready to pay premium for rival NBC

By Christopher Parkes

Mel Karmazin, chief executive of the CBS network, reassessed his faith in broadcast television yesterday with an offer to pay a generous premium for rival NBC, should its owner, General Electric, decide to sell.

Speaking in New Orleans, he said he believed GE would eventually dispose of the network, "in which case we'd be willing to overpay for it as much as we overpaid for the NFL".

Last year CBS paid more than double the previous rate for television rights to American football games in a successful bid to win back audiences.

Although Mr Karmazin has expressed interest in NBC before, and GE has said selling the business is a possibility, current federal regulations allow companies to own only one network.

However, Mr Karmazin and other network heads are lobbying in Washington for changes to rules established before cable and satellite emerged to challenge the traditional broadcasters.

Now that CBS, currently the top-rated network, NBC, ABC, Fox, and newcomers

WB and UPN share less than 50 per cent of the US audience - and only NBC is profitable - they are demanding action.

Their main objective is to change rules on broadcast TV station ownership which limit any single owner-operator to 35 per cent of the US audience.

Although other network groups are believed to be interested in NBC, Mr Karmazin has been most forthright in claiming his place at the front of the line.

He has also been prominent in recent moves to address concerns within the Federal Communications Commission, the industry's main regulator, that minorities are under-represented in broadcasting.

Mr Karmazin wrote last week to fellow chief executives calling for talks on the issue. Last year News Corporation, which controls Fox, proposed setting up an industry fund to help minorities in return for sweeping deregulation of broadcasting.

That initiative was supported by Chancellor Media, a leading radio group, and Paxson Communications, a small national network launched last year.

CHILE SPANISH GROUP PLANS AGAIN AFTER DISAPPOINTMENT

Endesa fails to take control of Enersis

By David White in Madrid and Mark Mulligan in Santiago

Endesa, the leading Spanish electricity group, began yesterday to reassess its plans for Latin America after being thwarted in its attempt to establish outright control over Enersis of Chile, up to now its main investment target in the region.

The Spanish group is expected to remain a shareholder in Enersis but to examine alternative investment opportunities in Mexico, Brazil and the US to provide the next stage of its international expansion.

Immediately following its

setback in Chile, Endesa announced better than expected 1998 results, showing a 9.5 per cent rise in consolidated net profit to €1.1bn (US\$1.2bn) and a 14 per cent increase in earnings per share to €1.10. The figures came after the close of trading in Madrid, where Endesa's share price slid 4.4 per cent to €28.82.

The company said it had asked for a recount of Enersis shareholders' votes after failing narrowly to win the 75 per cent approval necessary for a change in statutes that would have allowed it to bid for majority control.

Enersis fell 1.4 per cent

point short of the 75 per cent majority needed to change Enersis's statutes.

Under a plan drawn up with advice from Goldman Sachs, it was offering \$1.45bn to buy a further 32 per cent of Enersis. This would have doubled its existing stake, currently the maximum permitted for a single shareholder. It managed to persuade Chile's powerful pension funds to back the rule change but failed to win sufficient support from US shareholders.

Outright control would have enabled it to overrule the sale of Enersis's 25 per cent interest in Chile's big-

gest electricity generator, also called Endesa. Its opposition to the sale plan prompted its bid to assume outright control of Enersis.

The Spanish group has raised the possibility of buying directly into Endesa Chile, saying that if it did it would make a public bid for at least 25 per cent of the generating company.

It said yesterday it saw scope for co-operation with Duke Energy of US, which last week offered \$2.1bn for 51 per cent of Endesa Chile, and would back moves to raise the shareholding limit in that company.

The Spanish company,

which was fully privatised last year, bought into Enersis in 1997, seeing the Chilean group as the main platform for an ambitious Latin American investment drive. But its venture has been dogged by controversy and legal disputes.

It has made clear, however, that it has no plan for selling its existing shareholding in Enersis, which accounts for about 40 per cent of its \$3.5bn investment in the region. Executives said it was able to block any company from gaining a foothold in Enersis.

Lex, Page 20

Maseca emerges as a tasty choice

By Andrea Mandel-Campbell
in Mexico City

Grupo Industrial Maseca, Mexico's largest cornflour miller and maker of the humble tortilla, has emerged as a tasty choice since the lifting of strict controls on the country's most heavily protected industry.

After two years of falling sales and sagging profits, the prospects for the company are looking up following the government's new year decision to liberalise the tortilla industry.

Maseca, say industry experts and market analysts, is the company that stands to gain most from the ending of a complex chain of subsidies ranging from price caps

on the flat corn pancake to production quotas on the cornflour used to make Mexico's staple food.

Owned by Mexican food conglomerate Gruma, in which Archer-Daniels-Midland, the US miller, has a 22 per cent stake, Maseca commands a 70 per cent share of the country's cornflour market. Its production is used to make 44 per cent of all tortillas.

With the removal of production quotas, the miller is aiming to boost the volume of cornflour sales by 16 per cent this year, according to Ricardo Alvarez-Tostado, general director. Gruma, which had sales of \$1.1bn in 1997, will invest an estimated \$200m in 1999 for new

mills, better distribution and more advertising.

But the key to Maseca's strategy of increasing market share is aimed at converting the majority of tortilla mills that still use corn dough - the traditional method of making tortillas - rather than cornflour.

Corn dough is made from raw corn, boiled with water and lime in a process that takes eight hours.

With limits on flour production now lifted, Maseca wants to lure about 3,500 small, family owned mills to produce cornflour, which has a shorter production time and longer shelf life.

But while cornflour may be more efficient than dough, Maseca may have a

hard time convincing some tortilla makers to give up the centuries' old tradition.

"You would have to put a gun to my head before I would change to flour," says Felipe Galindo Rojas, who has run his combination dough mill and tortilla factory in Mexico City for the last 52 years. "Companies like Maseca are killing our tradition."

While the transition from a heavily controlled industry to an open market will be slow, Mr Alvarez-Tostado says competition is already fierce.

Since price caps on tortillas were removed, prices shot up by a third to 4 pesos (40 cents) a kilogramme, before public protests forced

the industry to agree to 3.5 pesos a kg.

Already some are undercutting the consensus price and many analysts question whether Maseca will be able to maintain its 15 per cent profit margins in the long run now that costs are no longer subsidised.

Once the new market conditions become more settled, Maseca eventually foresees reproducing what its sister subsidiaries in the US and Central America have been doing for years: offering speciality tortillas ranging from low-sodium to chilli pepper flavoured tortilla wraps.

"The possibilities are as wide as your imagination," says Mr Alvarez-Tostado.

COMMERCIAL UNION PRIVILEGE PORTFOLIO SICAV

Delaware, 4th floor
25, place de la Gare
L-1019 Luxembourg
P.O. Box 10000
L-1010 Luxembourg

DIVIDEND ANNOUNCEMENT

Commercial Union Privilege Portfolio accounts in dividend distribution payable 26th February 1999 (payout 27th December 1998) for the following funds:

Stanford Reserve	0.0004	GBP	Coupon N° 17
US Dollar Reserve	0.0004	USD	no bearer shares
Euro (European) Diversified	0.0004	EUR	no bearer shares
Spanish Diversified	0.0004	EUR	no bearer shares
German Diversified	0.0004	EUR	no bearer shares
Short Term Euro-Bond	0.0004	EUR	no bearer shares
Short Term Euro-Bond	0.0004	EUR	no bearer shares
Short Term Euro-Bond	0.0004	EUR	no bearer shares

Dividends are payable to holders of bearer shares against presentation of the respective coupon at the following banks:

In Luxembourg: CHASE MARIOTTAN BANK Luxembourg S.A.
5, rue Pothier
L-1008 Luxembourg

In Belgium: BANK J. VAN BREDEN & CO
Place de la Monnaie, 25
B-1000 BRUXELLES

THE BOARD OF DIRECTORS
COMMERCIAL UNION PRIVILEGE PORTFOLIO SICAV

FLEMING FLAGSHIP FUND

Notice to Shareholders
At from 1 April 1999, the following change will come into effect:
The Register and Transfer Agent will be entitled to its annual representation maintenance fee of up to £25.00 for each shareholder account. This fee is payable to the Company and is payable monthly pro rata.

The current prospectus including the above change can be obtained from the above address. If you have any questions regarding this change you may contact the registered office of the Company on 01232 3470 34 66.

By order of the Board
of Directors
February 1999

FLEMING

Asset Management

THIS NOTICE IS FOR INFORMATION PURPOSES ONLY AND DOES NOT CONSTITUTE AN OFFER OR AN INVITATION TO BUY OR TO SELL ANY SECURITIES. THE OFFER (AS DEFINED IN THE OFFER NOTICE OF 1 FEBRUARY 1999 (THE "ORIGINAL OFFER NOTICE")) WAS NOT MADE TO HOLDERS OF BONDS (AS DEFINED IN THE ORIGINAL OFFER NOTICE) ("BONDHOLDERS") IN ANY JURISDICTION IN WHICH THE MAKING OR ACCEPTANCE THEREOF WOULD NOT BE IN COMPLIANCE WITH THE LAWS OF SUCH JURISDICTION. THIS NOTICE SHALL NOT CONSTITUTE AN OFFER TO SELL OR OFFER FOR SALE OF ANY SECURITIES AS SUCH TERMS ARE DEFINED IN SECTION 2 OF THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT").

Result of the Offer by
URS AG, acting through its division Warburg Dillon Read
on behalf of
Textron Golf and Turf plc
(Incorporated with limited liability in England and Wales with registered number 3485585)
to purchase for cash
any and all of the outstanding \$43,658,085
8.564 per cent. Guaranteed Bonds Due 2008
issued by Textron Golf and Turf plc
and guaranteed by
Textron Inc.
(Incorporated under the laws of the State of Delaware)

COMMON CODE: 8402538 CUSIP: 88320AA7 ISIN: X50084025383

Further to the Original Offer Notice published in the Financial Times and the Luxembourgian and through Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System, Cedelex and The Depository Trust Company on 1 February 1999, notice is hereby given that the Offer Period (as defined in the Original Offer Notice) expired at 4.00 p.m. (London time) on 12 February 1999 and the Offer has now closed.

Pursuant to the Offer, £20,641,795 of principal amount of the then outstanding Bonds were repurchased by or on behalf of Textron Golf and Turf plc (the "Company"). All of the Bonds repurchased will be cancelled by the Company in accordance with the terms of the Offer. The total principal amount of the Bonds outstanding immediately following the expiry of the Offer Period was £23,226,290.

Textron Golf and Turf plc 26 February 1999

NO PERSON HAS BEEN AUTHORISED TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFER OTHER THAN THOSE CONTAINED IN THE ORIGINAL OFFER NOTICE OR THIS NOTICE. IF GIVEN OR MADE, SUCH INFORMATION AND REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORISED BY TEXTRON GOLF AND TURF PLC. TEXTRON INC., THEIR RESPECTIVE DIRECTORS, URS AG, ACTING THROUGH ITS DIVISION WARBURG DILLON READ, THE LAW DEBENTURE TRUST CORPORATION PLC, AS TRUSTEE IN RELATION TO THE BONDS OR MORGAN GUARANTY TRUST COMPANY OF NEW YORK, BRUSSELS OFFICE, AS BOOK-ENTRY DEPOSITORY.

Approved for the purposes of Section 57 of the Financial Services Act 1986 by URS AG, acting through its division Warburg Dillon Read, regulated in the United Kingdom by the Securities and Futures Authority.

J.E. ROBERT COMPANIES

IS PLEASED TO ANNOUNCE

RUSSELL C. PLATT

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JER INTERNATIONAL

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COMPANIES & FINANCE: UK

Colt Telecom hopes to raise extra £500m

By Alan Cane and Vincent Boland

Shares in Colt Telecom fell 10 per cent yesterday after the UK operator surprised the City with plans to raise £500m (£615m) in new capital to fund new networks, prompting fears the company was falling behind its competitors.

The news of the issue of equity and convertible bonds denominated in euros cast a shadow over Colt's full year

results which were at the top end of market expectations, including a more than 180 per cent increase in sales.

Colt last made a cash call in July 1998 raising £800m which, it said, would be adequate to fund its development until mid-2001. Yesterday it said that had been predicated on the assumption that the business plan would not change. Since late 1997 it has regularly revised upwards the number of

European cities it intends to link with its fibre optic network, the total now being 26. Colt builds fibre optic rings around major financial centres connecting directly to its customers. Now it is planning to link them together with long distance fibre cables.

Paul Chisholm, president and chief executive, said the cash would be used to build these connections using internet technology, to improve the quality of its

internet services to its European customers and to expand its local presence in Europe by building small switches ("point-of-presence") in a number of cities. Orange, the newest of the UK's four cellular phone groups, moved into operating profit last year, up 80 per cent to 2.16m. Orange has been offering mobile services only since April 1994, writes Alan Cane.

With 5,200 base stations, 25

per cent more than its nearest rival, it claims to have the UK's largest mobile phone network.

However the share price dropped 51.5p to 907p yesterday after Hutchison Whampoa, the Hong Kong group which held a 49.01 per cent stake, sold 50m shares, or approximately 4.2 per cent of the equity, through Goldman Sachs for HK\$5.28m (£64m).

Channing Fok, Hutchison Whampoa group managing director and Orange chair-

man, said the proceeds would be retained for general purposes.

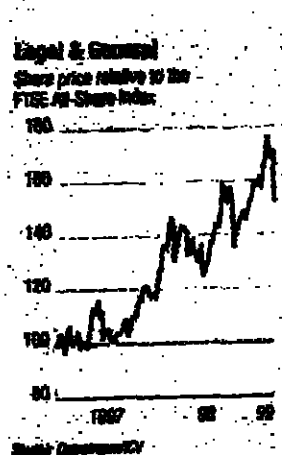
Orange's 1998 results were in line with market expectations. Turnover was \$3.9bn (£293.7m), while earnings before interest, tax, depreciation and amortization were \$147m (£47m).

The company is a service provider in France and Germany, has opened services in Austria and has licences in Belgium and Switzerland.

COMMENT

Legal & General

It had to stop. Legal & General may be a fast grower in one of investors' favourite sectors - life assurance - but 2.6 times book value was over the top. This was nearly twice the value of CGU, the biggest composite insurer. One disappointing figure - net assets 6 per cent below expectations - pricked the bubble. More general concerns about margin erosion did the rest. It is the latter worry that sticks. Although last year was a good one for life and pensions products, competition continued to erode after-tax returns - albeit from high levels. Slower growth in the industry this year could compound this. L&G, a well oiled machine, should still outpace its peers. But a more interesting question lies in the relatively low valuation of composite insurers. With an array of deals bringing discipline to their general operations, investors are beginning to see better value there.



Colt Telecom

Colt is cheeky to ask investors for another £500m just months after telling them its capital raising days were over. But its plans for spending the cash - linking the European cities where it is building local high speed networks - seem sensible. Building inter-city networks should allow Colt to offer more services to customers while cutting its reliance on other carriers to handle long distance calls. The latter has a dual benefit, helping it reduce prices and guarantee service quality. These factors, Colt believes, will help it seize and retain customers.

Nonetheless, the additional investment raises concerns. For one thing, it may dilute the returns investors expect from the £1bn Colt is already investing. It also highlights the competition emerging in the business telephony market. One reason Colt's shares soared so high was because bulls thought it might be bought by a US entrant to Europe. Now rivals like Level 3 are building their own networks.

This all makes life a little more tense for Colt. Even after yesterday's 10 per cent fall, its shares traded at 17 times forecast sales. It can ill afford for its investors to lose heart. At least enthusiasts can still point to the more competitive US market, where stratospheric valuations remain the norm. And Colt has yet to disappoint: quarterly revenues are still growing at a juicy 30 per cent.

L&G shares fall on margin fears

By Christopher Brown-Humes

Shares in Legal & General plunged 12 per cent yesterday on worries over falling margins and a lower-than-expected net asset value.

The 100p fall to 795p was the worst performance in the FTSE 100 since 1994, despite a 13 per cent rise in operating profits from £238m to £268m, in line with expectations.

Analysts said the shares, which have risen spectacularly in the last four years, were overvalued.

Roman Glazyn, analyst with Merrill Lynch, said the group's net asset value - the present value of future profits from business on the books - was 34p, against an expected 370p. The shares have been trading at two and a half times NAV, the highest rating of any FTSE 100 life group.

Analysts also pointed to a margin squeeze that reflected tough competition. Although L&G's UK life

and pensions business lifted sales 22 per cent last year, profits from new business fell from £78m to £73m. Moreover, the post-tax return on capital fell from 15 to 11 per cent.

David Prosser, chief executive, said: "The environment for life business going forward is about thinner margins." But he said the group remained confident it could continue to lift volumes and cut costs to offset margin pressures. "We have been growing individual life and pensions business in the UK by 30 per cent a year over the last four years, and I don't see why we can't continue doing that."

Organic growth remained the strategic priority, he said, as L&G only had 5 per cent of the highly fragmented UK market. There were no plans to return surplus capital to shareholders because "we want to use it to build up business and back further growth".

Traders suspended in CSFB inquiry

By Jane Martinson in London and Nicholas George in Stockholm

James Archer, the son of Lord Archer, the Tory peer, is at the centre of a share dealing investigation by Credit Suisse First Boston, the Swiss-US investment bank, it emerged last night.

The inquiry which led to the suspension of three traders was understood to have been triggered by Mr Archer's share buying in Stora, the Swedish paper group which merged with Enso of Finland at the end of last year, according to people close to the inquiry.

The Stockholm stock exchange confirmed yesterday that it was investigating suspected market manipulation after several trades thought to be worth a total of Kr10m (£1.23m) in December.

Concerns were raised that the trades would have the effect of moving OMX, the main Swedish share index which is thinly traded.

Mr Archer was suspended by CSFB along with David Crisanti, head of CSFB's London-based index arbitrage desk, and Adrian Ezra last week.

CSFB declined to comment last night until its internal investigation is completed.

Mats Wilhelmsson, head of market surveillance at the Stockholm exchange, said yesterday that it had launched the investigation at the end of last year after spotting certain market irregularities.

The exchange subsequently contacted Swedish and UK authorities including the Securities and Futures Authority, the City watchdog. CSFB representatives have also flown to Stockholm to help in the investigation.

The traders - who specialised in index arbitrage, betting on index price anomalies - had gained notoriety in the City as members of the Flamingo Ferrari, a high-flying group named after a favourite cocktail.

BA plans further cut in fleet expansion

By Michael Skapinker

British Airways has announced a further cut in its aircraft fleet expansion in an attempt to shore up its profitability. The airline recently announced a first-ever third-quarter loss of £75m (£122m).

Robert Ayling, chief executive, told a meeting of aviation analysts yesterday there would be almost no increase

in BA's aircraft capacity in 1999-2000. The year after that, the number of seats would rise by less than 2 per cent and, in 2001-2, aircraft capacity would be cut.

These figures compare with BA's earlier pledge that capacity would increase by no more than 2 per cent annually for the next three years.

BA's shares fell 29p yesterday to 453p. However,

they have risen from a low of 308p in October following Mr Ayling's announcement of plans to increase profit margins.

Mr Ayling also told the analysts the fall in investment in new aircraft meant BA's cash flow would be positive after 2001-2.

Mr Ayling has said he intends to concentrate on selling higher margin business class fares, while offer-

ing fewer discount economy tickets. The decision to limit the increase in the number of aircraft is an attempt to reduce the number of seats BA has to sell at the cheaper rates.

By 2002, nearly half of BA's long-haul fleet will consist of smaller Boeing 777s rather than the larger 747s.

BA also told analysts that it aimed to increase the

number of tickets sold over the internet to 50 per cent of bookings by 2003, against a negligible proportion today.

The attempt to take more internet bookings is part of BA's attempts to cut distribution costs. The company has achieved £600m in annual savings since 1996, but wants to cut costs by a further £400m. Mr Ayling has assured BA's 62,000 staff there will be no job losses.

Lifting a corner of BAe's veil of secrecy

Saudi Arabian business has been a mixed blessing, writes Alexander Nicoll

The importance of Saudi Arabia to British Aerospace (BAe) is both a blessing and a curse. The Saudi government is a customer of 26 years standing, with which BAe expects to do significant business for many years. Its orders helped the group survive its darkest days in the early 1990s.

But the secrecy that shrouds the 14-year-old Al-Yamamah contract, which BAe administers on behalf of the British government, is a problem. For reasons of customer confidentiality, BAe's figures do not give a clear picture of Saudi orders or their profitability. Speculation about the kingdom's economy and ordering intentions thus tend to have a big influence over BAe's share price, especially when oil prices are low.

Yesterday, BAe lifted a corner of the veil. It revealed that out of an order book which rose 27 per cent in 1998 to £28.1bn, 11 per cent was accounted for by "Al-Yamamah and training services". This means BAe has Saudi orders totalling some £3bn even after completing delivery last year of a batch of 48 Tornado aircraft. The low oil price and cuts in Riyadh's defence budget mean BAe is not expecting any new aircraft orders to be placed for some years.

Al-Yamamah has become, for the time being, mainly a service contract for maintenance and support of 120 Tornados as well as Hawk trainers and defence equipment which BAe and other

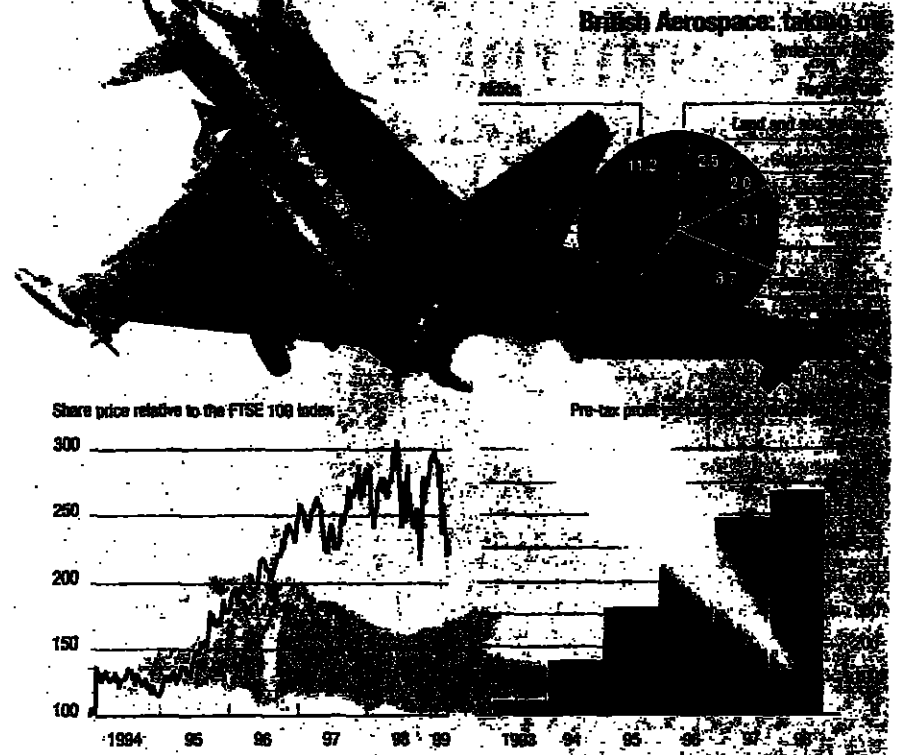
UK companies have supplied. BAe has 5,500 employees in Saudi Arabia.

BAe includes expected revenue from service activities in the order book one year at a time. This is understood to account for the bulk of the £3bn - and will therefore account for a sizeable chunk of its 1999 sales. Orders for equipment on a smaller scale than aircraft are included as they are received.

After Tornado deliveries were completed, payments made in oil were cut from 600,000 to 400,000 barrels per day. Saudi Arabia also made a cash "top-up" payment of about £1bn, but this did not arrive until early January this year and embarrassingly forced BAe to report a £639m operating cash outflow for 1998. This was a bit of accounting transparency the customer could have done without. It also revealed how dependent BAe still is - at least for cash flow - on Al-Yamamah.

BAe executives emphasised they saw revenue and profits coming from a variety of sources in addition to Saudi Arabia. Al-Yamamah will still be important, but will diminish as a proportion of sales if regulators clear BAe's proposed acquisition of Marconi from GEC.

First, BAe will make the front fuselage, stabilising fins and first stage of the aft fuselage for 620 Eurofighters, and assemble the 233 aircraft ordered by the UK. Greece's statement of intent to buy the aircraft suggests it has strong export prospects. BAe is making Nimrod



maritime patrol aircraft for the UK, and continues to win orders for Hawk trainers. South Africa recently put in the first export order for the Gripen fighter made by Saab of Sweden, in which BAe holds 35 per cent.

Second, BAe hopes for a long-term improvement in profit margins at Airbus, especially if restructuring the civil aircraft consortium into a single entity can be agreed with its partners.

Margins would also be improved if Boeing and Airbus, which have sought to

undercut each other for years, were to change their pricing policies in order to earn higher returns. In the shorter term, repayments of launch aid will diminish from 2000 onwards and boost BAe's Airbus profits.

Third, BAe expects to benefit from the UK Ministry of Defence's policy of expecting "prime contractors" to take on more risk and to support weapons throughout their service.

Fourth, BAe plans to expand its markets. The acquisition of Marconi will

give it a substantial electronics business. The group expects its missiles business to grow and is seeking to improve returns from its expanding portfolio of systems activities.

It intends to expand further in the long term through consolidation among European and US arms makers. John Weston, chief executive, said the Marconi purchase would give it greater choice and in spite of German and French chagrin, "virtually all routes are still open".

SB signals £5bn buy-back

By Lucy Smy

SmithKline Beecham yesterday held out the prospect of a £4.9bn (\$6bn) share buy-back in a move seen by some analysts as shoring up its defences against a possible hostile bid.

The pharmaceuticals group denied that its plan to ask shareholders for the authorisation to buy back up to 10 per cent of shares was "purely defensive" and said it was only to increase flexibility.

The group said: "The authority would do for a year, but it does not mean that we will necessarily use it."

Since the start of last year the group has considered and abandoned two mega mergers, first with American Home Products and then with Glaxo Wellcome. This year, Jan Leschly, chief executive, said the company would stand alone and would not engage in further talks.

However this independent

stance has left a number of analysts believing the group is vulnerable to a hostile approach. "If Glaxo wanted to make a move, now would be a good time," said one.

As well as adding the financial flexibility to support the share price, making it more difficult or at least expensive to approach SmithKline, the move would allow the group to offer a sweetener to shareholders.

Two weeks ago, SB set itself a 13 per cent earnings growth target for 1999.

Weak metals prices hit Rio Tinto

By Gillian O'Connor

Rio Tinto, the diversified Anglo-Australian mining group, is heading for a further drop in earnings this year unless metals prices unexpectedly improve.

Most metals prices are now below their average levels for 1998, and Bob Wilson,

chairman, yesterday said that despite being close to the bottom, a recovery was not expected until some companies operating high-cost mines cut production.

However, he said from Rio's view as a low-cost producer, it would be good if low metal prices persisted and led to a shake-out of sur-

plus capacity. He estimated 20 to 30 per cent of copper producers were losing money on a "cash cost" basis, and more than 60 per cent on a profit and loss account basis.

Group revenues for 1998 were 2 per cent lower at \$5,560m (\$9bn).

Pre-tax profits fell 27 per

cent to \$910m (£127bn) after the predicted write-down of asset values resulting from compliance with UK accounting standard FR5 11.

The copper, aluminium and gold divisions showed lower profits, but iron ore, industrial minerals and energy rose.

RESULTS

Company	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends compared with last year	Total for year	Total last year
Arjo Wiggins	3,223 (5,421)	211.4 (215.1)	17.7 (18.1)	5.4	May 21	5.1	8.5	8
British Aerospace	6,611 (6,546)	973p (233p)	38.4 (8.2)	4.15	June 1	2.55p	6.5	4.85p
Card Group	25.6 (7.15)	2.11p (1.55)	0.66 (1.59)	0.1725	May 11	0.15	0.2875	0.25
Clarke (I)	57.2 (22.8)	3.35p (2.72)	17.5 (14.7)	5.59	May 10	4.07	6.15p	6.11p
Colt Telecom	215.1 (91.5)	55.6p (32.5)	10. (7.4)	-	-	-	-	-
Edies	109 (103)	32.4p (13p)	112.3 (50.2)	-	-	-	-	-
Estates & General	18.3 (17.3)	2.6p (2.25)	8.8 (7.9)	1.1	May 13	0.5	1.6	0.8
First Active	-	-	-	1.89	May 17	-	1.89	-
Galliford	107.8 (42.3)	1.1 (0.76)	0.89 (0.59)	0.5	Mar 12	0.5	-	1.1
Golden Fleece	3.22 (3.02)	1.47p (0.95p)	10. (5.8)	-	-	-	-	-
Green Property	46.3 (27.5)	21.5 (12.1)	17.34 (15.88)	4	Mar 29	3.5	5.8	5.3
Hessons	1,825 (2,478)	198.5p (603.3p)	54.5 (88.1)	8.75	May 7	9	12.75	12
Imvros	6.36 (6.5)	2.51 (2.61)	14.1 (14.7)	2.67	Apr 30	2.43	-	4.55
KBS Advanced	59 (33.1)	8.35 (8.2)	13.19p (11.31)	2.6	Apr 5	2.6	3.9	2.6
Lease	326 (22)	353.4p (154)	44.2 (23.8)	2.5p	Mar 31	2.5p	2.5p	2.5p
Legal & General	-	-	-	9.92	May 4	8.7	14.48	12.7
Life Service	1,528 (2,002)	100.3p (44p)	69.4 (25.2)	11.7	Apr 28	10.7	19.5	17.5
Lincot	12.6 (12.2)	1.73 (2.51)	19.7 (18.2)	4.5	Apr 6	3.8	-	12.5m
Linx Printing Tech	12.6 (11.3)	1.97 (1.48)	7.7 (6.6)	1.9	Apr 10	1.6	-	13.2
London Bridge	22.4 (11.3)	7.37 (3.74)	20.11 (10.03)	3	Apr 30	3	4.5	3
Magnesium Power	0.92 (0.80)	0.095p (0.05)	0.79p (0.45p)	-	-	-	-	-
Midland (A&S)	-	-	-	3.76	Jul 1	3.5	-	7.53
Newmarket Tech	3.33 (1.02)	0.033 (0.08)	0.051p (0.19)	-	-	-	-	-
Orange	1,213 (914)	88.19p (130.11p)	18. (12)	-	-	-	-	-
Pfizer	21.4 (24.2)	1.98 (2.07)	9.31 (9.3)	3	May 4	3	-	6.09
Preston North End	2.3 (2.2)	0.42p (0.423p)	20.2 (21)	-	-	-	-	-
President Faraday	506 (444)	149.3 (136.5)	40.19p (34.77)	13.8	May 7	11.75	22.5m	19.5
Quintessence Health	1.26 (2.04)	5.31p (2.8)	11.41 (11.3)	-	-	-	-	-
Quayle Moore	6 mths to Dec 31	1.21 (0.285)	1.06 (0.45)	4.5	Apr 6	4.5	-	12.8
Ricardo	6 mths to Dec 31	45.1 (40.3)	4.5 (3.85)	6.7 (5.4)	2.3	Apr 30	2.2	-
Ring	6 mths to Dec 31	37.9 (44.2)	1.83 (17.11p)	2.4 (44.2)	0.6	Jul 16	-	1.8
Rio Tinto	6 mths to Dec 31	5,562 (5,799)	910 (1,285)	30.4 (53.1)	22.05	Apr 7	21.55p	31.99p
Scholar (H&M)	6 mths to Dec 31	23.8 (24.3)	2.1 (2.8)	6.4 (8.6)	2.4	May 7	2.4	-
Smith & Nephew	6 mths to Dec 31	1,253 (1,048)	134.5p (124.4)	8.42 (10.24)	3.8	Jun 4	3.8	8.2
Southdown	6 mths to Nov 30	0.95 (0.9)	0.275 (0.518)	3.4 (5.1)	all	1.6	-	4.8
Syner	6 mths to Dec 31	294.5 (217.8)	8.1 (7.97)	24.8 (24.4)	5.2	May 27	-	-
Taurus	6 mths to Dec 31	6.49 (0.56)	2,971.4 (0.009)	19.01 (0.11)	-	-	-	-
Tottenham Hotspur	6 mths to Jan 31	22.6 (19.8)	4.13 (4.02)	2.7 (2.1)	-	0.33	-	0.56
United Assurance	6 mths to Dec 31	-	193.9p (226.7p)	34.2 (40.2)	16.5	May 4	14	24.5
Unilever (France)	6 mths to Nov 30	10.5 (11.6)	0.74p (1.01)	7.3p (9.4)	4	Apr 1	4	21
Waste Recycling	6 mths to Dec 31	46.9 (27.2)	10.5 (6.13)	14.71 (10.8)	2.2	May 7	1.9	3

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. After exceptional charge. After exceptional credit. 10c increased capital. On reduced capital. *Comparatives restated. 2. Adjusted for share split. 3. Am stock. 4. Am stock. 5. Excludes special. 6. Figures pro forma. 7. Foreign income dividend. 8. Comparatives for 7 months. 9. Contains FID element. 10. Comparatives for 6 mths to Dec 31, 1998.

ARGENTARIA
Ordinary General Meeting of Shareholders

Notice is given hereof that an Ordinary General Meeting of Shareholders of Argentaria, Caja Postal y Banco Hipotecario, S.A. ("Argentaria") will be held at Pabellón de Cristal de la Feria del Campo, calle de las Aras s/n, Casa de Campo, Madrid, on March 13th, 1999 at 12:00 p.m.

The Agenda which will be submitted to the said A.G.M. for review and approval is available on both our web site (<http://www.argentaria.es/junta>) and through Argentaria Investor Relations Dept. (please, see contact information below), both in English and in Spanish.

An announcement has also been published, as contemplated in article 97 of the Consolidated Text of the Companies Act in Spain, in the Official Gazette of the Commercial Registry and in a newspaper of wide circulation in Madrid.

We remind shareholders that they can exercise their voting rights by instructing their custodians and/or their proxy voting agencies to process their proxy votes via their local custodian or agent in Spain.

Should any shareholder require or need further information relating to this A.G.M., please contact us at Argentaria Investor Relations

Telephone: +3491 5373761. Fax: +3491 5378512. inversores@argentaria.es

www.argentaria.es

ARGENTARIA, Paseo de Recoletos, 10,

INSIDE TRACK

INTERVIEW WERNER BALDESSARINI

Dressing up to the nineties

Alice Rawsthorn finds Hugo Boss's chief ready and able for its latest, more feminine challenge

When two men walked into Werner Baldessarini's fashion boutique in Munich and asked if he would sell their company's suits, the answer was no: not least because the suits were made in Germany and his stock was mostly Italian.

Undaunted, his visitors returned a few months later and asked Mr Baldessarini to join their company Hugo Boss as a designer. Eventually he agreed. That was 22 years ago. Last autumn he took charge by becoming chairman and chief executive.

When Mr Baldessarini, now 54, arrived, Boss was a small clothing manufacturer in Metzingen, on the outskirts of Stuttgart. It now owns one of the world's best-known clothing labels in Hugo Boss and the top-selling men's designer fragrance in Hugo.

Yet he has taken the helm at a time when Boss faces what could be its toughest challenge - launching a women's line. "We'd like to launch the women's collection next year but we'll wait till we're ready. It's too important to rush. There's no fixed timetable," Mr Baldessarini says.

Hugo Boss has reinvented itself before, notably in the early 1990s, when the sleek, sharp-shouldered style of power dressing, with which it had been so successful in the 1980s, fell out of fashion. Mr Baldessarini had helped to define that look with Jochen and Uwe Holy, the two men who "discovered" him in his Munich boutique.

Together, they turned Boss into a brand aimed at clothes-conscious yuppies who wanted to be thought to

be wearing designer labels but could not afford Giorgio Armani and shied away from the *outré* styles of Yohji Yamamoto and Comme des Garçons.

By exerting rigorous control over a network of subcontractors in lower-cost countries, Boss produced high quality clothes at not-too-inaccessible prices; and a high profile programme of golf, tennis and Formula One sponsorship raised awareness of its brand name.

The Holy lost control of the company in 1988 when, after an ill-starred US acquisition, they sold their majority stake to Leyton House, a Japanese trading company that subsequently sold it to Marzotto, the Italian textile group. The brothers left in 1992 and Marzotto appointed Peter Littmann, a German marketing whizz, as chairman.

Along with Mr Baldessarini he redefined the Boss look by introducing softer, sportier styles to the Hugo Boss collection. They also hired cutting edge photographers, such as Jürgen Teller, to shoot advertising for the younger Hugo range.

The sports sponsorship continued under Mr Littmann, but he also sought to create a more cerebral image for the brand by beginning an ambitious sponsorship scheme with the Guggenheim Museum. This has funded exhibitions and ad hoc projects, notably Jeff Koons' floral puppy sculpture outside the Guggenheim Bilbao. The company also initiated the biannual Hugo Boss art prize.

Mr Littmann left Boss in early 1997 and Joachim Vogt, a former McKinsey consultant who had taken charge of production, became chairman. He departed last autumn and was replaced by Mr Baldessarini, who sees his role as restoring continuity.

"Joachim Vogt was a statistics man from McKinsey,



'Fashion has a lot to do with emotion and that's very difficult for outsiders to understand'

Jason Orton

whose world was very different from ours," he recalls. "We wanted to move in the same direction but had different ideas about how to get there. Fashion has a lot to do with emotion and that's very difficult for outsiders to understand."

Mr Baldessarini says his immediate priority is to "make the company less bureaucratic". He has little faith in the colour consultants, trendspotters and style forecasters who advise many fashion groups, preferring to encourage his employees to respond to their instincts.

"Why would we want to work with consultants, who tell everybody the same things each season?" he says. "We do our own research while we're running around the world. If you consider things for too long, they never get done. The Swatch wouldn't have

been launched if it had been researched."

He sees no need for another sea change in Boss's styling like the one he and Mr Littmann initiated in the early 1990s. Similarly, he claims to be happy with its advertising, although future campaigns will be less overtly masculine, as soon as a launch date is finalised for the women's collection.

An avid F1 fan, Mr Baldessarini is committed to continuing Boss's sports sponsorship. "It's been very important for us in making the brand well-known worldwide," he affirms. "How else could we have done it from a small town in Germany?"

However, he may seek changes on the arts front. "I'm happy with what we've achieved in our five-year relationship with the Guggenheim," he states. "We haven't decided exactly what we're going to do in future



KEN WARN
FILE FROM BUENOS AIRES

The anarchists of the tarmac

In a country where wearing a seatbelt is seen as cowardice the Argentines would appear ripe for road safety education

The World Bank may be about to embark on one of its most ambitious missions yet: helping the Argentines to drive safely. A team of its experts is due in Argentina next month to assess the country's suitability as a pilot study in the Global Road Safety Partnership, an international public and private sector initiative.

The experts had better keep their wits about them. Argentines drive with a kind of free-wheeling anarchy that defies regulations and laughs at danger. Many drivers trust to quick reactions and luck to keep them out of trouble.

All too often, their trust is misplaced. Between 6,000 and 7,000 Argentines die on the roads every year, in a country where car ownership is still low by US or European standards.

In 1997 there were 188 road deaths per million Argentines, not as bad as the 222 per million people registered in Venezuela, but three times the rate of the UK or Sweden. The toll was a third greater than in Italy, a country not renowned for safe driving.

A good place for the World Bank team to start would be the Avenida Santa Fe in downtown Buenos Aires, just before it reaches the city's main pedestrian shopping street. Here, the road is painted with the white stripes that normally denote a zebra crossing. But the traffic never stops.

Foreign tourists, ambulating out of the pedestrian zone towards the leafy Plaza San Martín, wait for a break in the swirling traffic. Puzzled and impatient, some try to take the initiative by

stepping on to the crossing. The cars do not even slow down. The tourist is forced to sprint for the kerb amid a blaring of horns.

As they stand marooned by the swarming vehicles, the World Bank team may see some dispiriting sights. Entire families often climb on to a single motorbike, with a mother on the back cradling a tiny baby in her arms. Parents like to hold their children on their laps on front passenger seats, holding the child towards the windscreen.

Wearing seatbelts is widely regarded as cowardice or folly. Taxi-drivers are apt to drape the belts across their chests without fastening them.

Head-on crashes are common. Pedestrians regularly fall victim to vehicles shooting red lights.

Enforcement is lax. Motorists pulled up by the police for traffic offences can often talk their way out of a charge, helped by handing over some cash. Officials admit that the driving test, a model of its kind on paper, is not rigorously applied in some provinces.

Foreigners react in different ways to the terrors of the tarmac. Some refuse to drive at all. Others quickly adapt to local driving habits. "The Argentine way is to just look out for what's ahead. Don't worry about the guy behind - that's his problem," says one senior foreign official.

Partly for self-protection, the diplomatic corps has enthusiastically embraced the growing local preference for giant, gleaming 4x4 vehicles. "It's only in a dirty great big 4x4 that I feel

anything like safe," says one diplomat. "I can see what's going on, and other people have to get out of the way."

The expense would otherwise be hard to justify to the taxpayers back home. Four-wheel drive is even more redundant in Buenos Aires than in most other cities: the nearest hills are miles away.

Why is Argentine driving so spectacularly bad? Are drivers unconsciously thumbing their noses at rules laid down by a state that many hold in contempt? Or are the causes largely cultural? Many drivers appear to put more faith in the supernatural than in the highway code. Taxis are frequently adorned with crucifixes, worry beads or lucky charms, while buses have stickers proclaiming the protection of the Virgin of Luján, patron saint of the motor transport industry.

The relatively underdeveloped road system is clearly a factor. The worst drivers like to get up to near-motorway speeds in the narrow grid of streets in central Buenos Aires, unimpeded by the dearth of traffic lights. Driving across many junctions is a game of chicken, with drivers reluctant to give way.

Ernesto Tenenbaum, under secretary of road safety, has a more mundane explanation: "The main factor is that driving skills have just not kept up with mass car ownership."

He believes that the incidence of accidents is levelling out, and that Argentina is ripe for an educational effort aimed at drivers and pedestrians alike - hence the approach to the World Bank. "We are not different from other people. It's a question of education, and of having the correct policy and enforcing it."



Puppy love: Boss sponsors Jeff Koons' floral dog sculpture outside the Guggenheim Bilbao

BUSINESS EDUCATION WOMEN AND LEADERSHIP

The holistic approach

Tracy Corrigan looks at a scheme that aims to prepare women both professionally and psychologically for leadership

It is not a business school, or a diversity programme, or a networking opportunity, though it has some of the same goals. The Woodhull Institute for Ethical Leadership, launched today, is a not-for-profit educational institution designed to prepare young women for leadership.

The institute, housed in a 300-acre site outside New York City, was set by a group of successful women who felt that "many of us, looking back, realise that we spent our 20s not knowing how to get started," says Naomi Wolf, the feminist writer who is president of the institute.

The institute, named after the first woman to run for the US presidency, seeks to provide a "holistic approach", she says, through a blend of practical courses, weekend retreats, mentoring and support designed to provide "all the tools not only for professional preparedness but also for psychological preparedness".

Ms Wolf began raising funds for the project with fellow board director Margot Magowan, a philanthropist and radio producer, a little over a year ago. She came up with the idea because "I

travel a lot to speak to different groups of young women and I would encounter very bright, very ambitious, very idealistic young women who were profoundly ill-prepared to take on leadership positions".

Ms Wolf found that as well as lacking skills such as public speaking, many young

women also "lacked the psychology of intelligent risk-taking". While young men in their 20s were "trying things... their female peers had a lot of fear about leadership, no matter how smart they were".

Certainly, there is still plenty of room for improvement in women's access to

positions of power in the US. Despite diversity programmes and affirmative action, there were two chief executive women officers running Fortune 500 companies in 1997. Ten years later, the number was unchanged.

One reason efforts such as diversity programmes have largely failed to deliver, believes Melissa Bradley, a founding director of the institute, is that "many companies have looked on it as a numbers game".

The institute has found practical ways of reaching a far broader range of women than might aspire to attend Harvard Business School, through links with grassroots organisations such as Colin Powell's America's Promise, a not-for-profit group to help and to develop young people, as well as diverse educational establishments which include community colleges as well as Ivy League schools.

With an advisory board which includes writer Erica Jong and actress Cybil Shepherd, it also sounds as if it might be more fun than Harvard Business School.

The Woodhull Institute for Ethical Leadership at 61 E 8th Street, Suite 130, New York, New York 10003



Wolf: "We spent our 20s not knowing how to get started"

AP Woodhull@aol.com

ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED

(Incorporated in the Republic of South Africa)
Registration No. 01/0330906

AMENDED NOTICE TO HOLDERS OF ORDINARY SHARE WARRANTS TO BEAKER - PAYMENT OF COUPON NO. 133

- Coupon No. 133
- Date of payment: On or after 19 March 1999
- Amount: 275 cents per share (South African currency)
- UK Income tax (where applicable): 20% or 55 cents per share
- UK currency equivalents (on 15 February 1999):

Gross: 27,59603p per share*
UK Tax: 5,51921p per share*
Net: 22,07682p per share*

*UK currency equivalents have been amended from those shown in the notice dated 19 February 1999 as a result of a correction to the RSE exchange rate.

6. Payable at:

Crédit du Nord Banque Bruxelles Lambert Générale de Banque
50 Rue d'Anjou Avenue Marnix 24 Montague du Parc 3
75008 Paris B-1000 Brussels B-1000 Brussels

Banque Generale du Luxembourg SA
50 Avenue J F Kennedy
L-2951 Luxembourg
UBS AG
WS-Operations
Einfuhrstrasse 65
Postfach, CH-8098 Zurich

Banque Internationale à Luxembourg SA
Immeuble L'Indépendance
64 route d'Esch
L-2953 Luxembourg-Ville
Computerservis Services plc
7th Floor, Jupiter House
Tricorn Court, 14 Finsbury Square
London EC2A 1BR

Notes:
i) Coupons paid by any of the continental paying agents under 6 above will be payable in South African currency to an authorised dealer in exchange in the Republic of South Africa nominated by the continental paying agent. Instructions regarding disposal of the payment proceeds can be given only to such authorised dealer by the paying agent concerned.

ii) Coupons paid by Computervis Services PLC will, unless payment in South African currency is requested, be in the sterling equivalent shown in 5 above in respect of coupons lodged up to 12 March 1999 and thereafter at the rate of exchange on the day the proceeds are remitted.

For and on behalf of
ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED
G.A. Wilkinson
London Secretary

London Office:
30 Ely Place
London EC1N 6QP

24 February 1999

Frontrunner 1, Sicav

672, Rue de Neudorf L-2220 Fintel
R.C. Luxembourg No. B. 31462

Notice of Meeting

Shareholders of Frontrunner 1, Sicav, are hereby invited to attend the Annual General Meeting, which will be held in English on March 15, 1999 at 10.00 a.m. at the registered office.

Agenda:

- Submission of the reports of the Board of Directors and of the Authorised Independent Auditor.
- Approval of the balance sheet and the profit and loss statement as at December 31, 1998.
- Discharge to the Directors and the Authorised Independent Auditor in respect of the carrying out of their duties during the fiscal year ended December 31, 1998.
- Election of the Directors and the Authorised Independent Auditor.
- Miscellaneous.

The Shareholders are advised that no quorum for the items on the agenda is required and that the decisions will be taken by the majority of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may not act as proxy for any other shareholder.

Shareholders wishing to attend the Meeting are requested to notify Frontrunner Management Company S.A. or their Account Manager in Uilbank S.A. by March 10, 1999 at the latest.

By order of the Board of Directors.

Frontrunner Management Company S.A.
672, Rue de Neudorf
L-2220 Fintel
Telephone: +352 43 88 73 57
Telefax: +352 43 39 40



NATIONAL BANK OF CANADA

US\$ 150,000,000
Floating Rate Subordinated Debentures
due 2087

In accordance with the provisions of the Debentures, notice is hereby given that for the six month interest period from February 26, 1999 to August 31, 1999 the Debentures will carry an interest rate of 4.518625% per annum, adjusted in accordance with a notice published on March 10, 1999.

The interest payable on the relevant Interest Payment Date, August 31, 1999 will amount to US\$ 233.31 for Debentures of US\$ 10,000 nominal and US\$ 2,333.10 for Debentures of US\$ 100,000 nominal.

The Reference Agent
Kreditbank
Luxembourg

Den norske Bank

U.S.\$280,000,000
Primary Capital Perpetual
Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that for the six month interest period from February 26, 1999 to August 31, 1999 the Notes will carry an interest rate of 5.25% p.a. and the Coupon Amount per U.S.\$10,000 will be U.S.\$513.27.

Global Agency and Trust Services,
Citibank, N.A. London
February 26, 1999

CITIBANK

BANCO CENTRAL DE LA REPUBLICA DOMINICANA

POI BOND DUE 2009

In accordance with the provisions of the Fiscal Agency Agreement, notice is hereby given that for the six month interest period from February 26, 1999 to August 31, 1999 the Bonds will carry an interest rate of 6.0% p.a. and the Coupon Amount per U.S.\$1,000 nominal of the Bonds will be U.S.\$60.00.

Global Agency and Trust Services,
Citibank, N.A. London
February 26, 1999

CITIBANK

ISK 1,500,000,000 LANDSBANKI ISLANDS

Variable Index
Linked Notes 1998/2013
XS0085020342

Interest Rate 5.726%

Interest Period December 1, 1998 March 1, 1999

Interest Amount due on March 1, 1999 per

ISK 100,000 ISK 1,400

ISK 1,000,000 ISK 13,997

Global Agency and Trust Services,
Citibank, N.A. London
February 26, 1999

CITIBANK

Den norske Bank

U.S.\$200,000,000
Primary Capital Perpetual
Floating Rate Notes
(SECOND SERIES)

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from February 26, 1999 to August 31, 1999 the Notes will carry an interest rate of 5.3374% p.a. and the Coupon Amount per U.S.\$10,000 will be U.S.\$532.75 and per U.S.\$100,000 will be U.S.\$5,327.50.

Global Agency and Trust Services,
Citibank, N.A. London
February 26, 1999

CITIBANK

EURO PRICES

EQUITIES

High-fliers are dragged back to earth

EUROPEAN OVERVIEW

By Vincent Boland

European stock markets succumbed to profit-taking yesterday and ended lower across the board, with recent high-fliers in the telecommunications and pharmaceuticals sectors leading price falls. A weaker start on Wall Street also aided the retreat in a busy session.

The losses came despite another sharp fall in prices in the US treasury bond market at the European close. Analysts said that investors were beginning to heed comments by Alan Greenspan, the chairman of the US Federal Reserve, who again warned this week about the dizzying levels of US share prices.

Yields on US treasuries have been rising steadily,

and the dollar was also weaker. That helped the euro to climb back above \$1.10 after its low points earlier in the week.

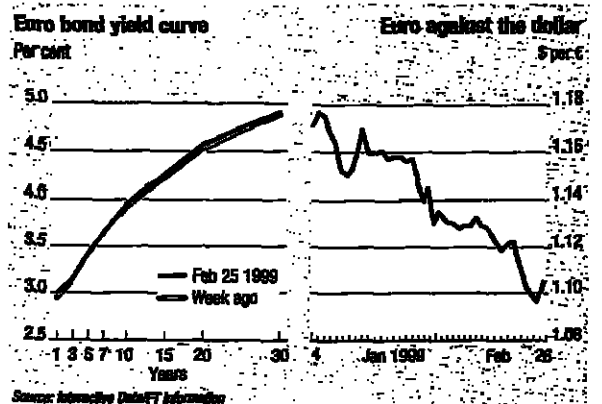
Recording losses of between 1.7 per cent and 2 per cent, the FTSE Eurotop 300 index of leading European stocks fell 20.81 to 1,239.11 while the FTSE Eurotop 100 index closed 56.5 lower at 2,824.47. The FTSE Eblor index of shares in

euro-zone companies fell 18.3 to 1,012.64. Declines were led by the leading shares, Glaxo Wellcome shed 61.80 to €30.05 after it said its new flu drug had been turned down for approval by the US Food and Drug Administration. Other drug makers tumbled in sympathy - SmithKline Beecham fell 80 cents to €22.85 while Astra, struggling to defend its merger with

Zeneca, ended 30 cents lower at €18.94. DaimlerChrysler fell €4.60 to €87 on profit-taking despite good results, while Volkswagen was €3.40 lower at €59.50 as investors continued to take profits after it warned its 1999 results were unlikely to match those of 1998. The auto sector was among the day's weakest, off 3.4 per cent.

The telecoms sector, ripe for profit-taking after its recent surge, shed 2 per cent. Among the casualties was Olivetti, which fell another 30 cents to €2.74 as it struggled to get back on track with its hostile takeover of Telecom Italia, which ended 30 cents lower at €9.80.

Vodafone fell 50 cents to €16.78, but Telefonica added 26 cents to €42.25 after good results. Banks, also in the reporting season, were mainly lower. Dresdner fell €1.20 to €32.66.



Source: Intercontinental Data Services

IN THREE MONTHS EURO FUTURE (LFTS) €1m 100-pts									
Month	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	96.850	96.845	-0.005	96.855	96.840	40829	135083	96.845	-0.005
Apr	97.070	97.070	0.000	97.080	97.060	43082	141827	97.070	0.000
May	97.100	97.100	0.000	97.120	97.080	38847	105119	97.100	0.000
Jun	96.850	96.850	0.000	96.860	96.840	11694	95339	96.850	0.000

IN THREE MONTHS EURO LIBOR FUTURES (LFTS) €1m 100-pts									
Month	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	96.850	96.845	-0.005	96.855	96.840	11973	11973	96.845	-0.005
Apr	97.070	97.070	0.000	97.080	97.060	1538	107702	97.070	0.000
May	97.110	97.110	0.000	97.120	97.100	692	94191	97.110	0.000
Jun	96.850	96.850	0.000	96.860	96.840	0	87072	96.850	0.000

IN THREE MONTHS EURO LIBOR FUTURES (LFTS) €1m 100-pts									
Month	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	96.850	96.845	-0.005	96.855	96.840	11973	11973	96.845	-0.005
Apr	97.070	97.070	0.000	97.080	97.060	1538	107702	97.070	0.000
May	97.110	97.110	0.000	97.120	97.100	692	94191	97.110	0.000
Jun	96.850	96.850	0.000	96.860	96.840	0	87072	96.850	0.000

IN EURO STYLE FTSE EUROTOP 100 INDEX OPTION (ATM) €10 per index point									
Month	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	285.0	285.0	0.0	286.0	284.0	82	7347	285.0	0.0
Apr	285.0	285.0	0.0	286.0	284.0	82	7347	285.0	0.0
May	285.0	285.0	0.0	286.0	284.0	82	7347	285.0	0.0
Jun	285.0	285.0	0.0	286.0	284.0	82	7347	285.0	0.0

OTHER INDICES									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	285.0	285.0	0.0	286.0	284.0	82	7347	285.0	0.0
Apr	285.0	285.0	0.0	286.0	284.0	82	7347	285.0	0.0
May	285.0	285.0	0.0	286.0	284.0	82	7347	285.0	0.0
Jun	285.0	285.0	0.0	286.0	284.0	82	7347	285.0	0.0

FTSE EUROTOP 300									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

AEROSPACE & DEFENCE									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

AUTOMOBILES									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

BANKS									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

ELECTRICITY									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

ELECTRONIC & ELECTRICAL EQUIP									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

FOOD & DRINK RETAILERS									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

FOOD PRODUCERS & PROCESSORS									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

GAS DISTRIBUTION									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

GENERAL RETAILERS									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

CONSTRUCTION & BUILDING									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

DISTRIBUTORS									
Index	Open	Sett price	Change	High	Low	Est. vol	Open Int.	Sett price	Change
Mar	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Apr	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
May	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81
Jun	1239.11	1239.11	-20.81	1240.00	1238.00	1000	1000	1239.11	-20.81

BURGUNDY

FRIDAY FEBRUARY 26 1999

Mapping out future growth

Development will be conditioned by the extent to which the region can compete for investment, says **Robert Graham**

If one were throwing darts at a map of the newly-created euro-zone, Dijon, the capital of Burgundy, would come close to being a generous bull's eye. "Within the radius of a day's drive, you will find 80 per cent of the wealth of the European Union," says Henri Jolimet, director of economic research at Burgundy's regional council.

The council provides a neat little map with travel times fanning out from Dijon in circles, a bit like a dartboard. Ten hours away by road lie Saragossa in Spain, Florence in Italy, Hamburg in Germany and Birmingham in the UK. Brussels, Cologne and Milan are all within six hours of the Burgundian capital. In France itself, Dijon is almost halfway between Paris and Lyon, the two major centres of economic activity in France. Paris is just over an hour-and-a-half by train.

The once-famed wealth and power of the dukes of Burgundy owed much to their control of this strategic position, astride the main north-south land and water routes of eastern France. Today, its future development will be conditioned by the extent to which it can compete for investment by exploiting its location in the nascent euro-zone.

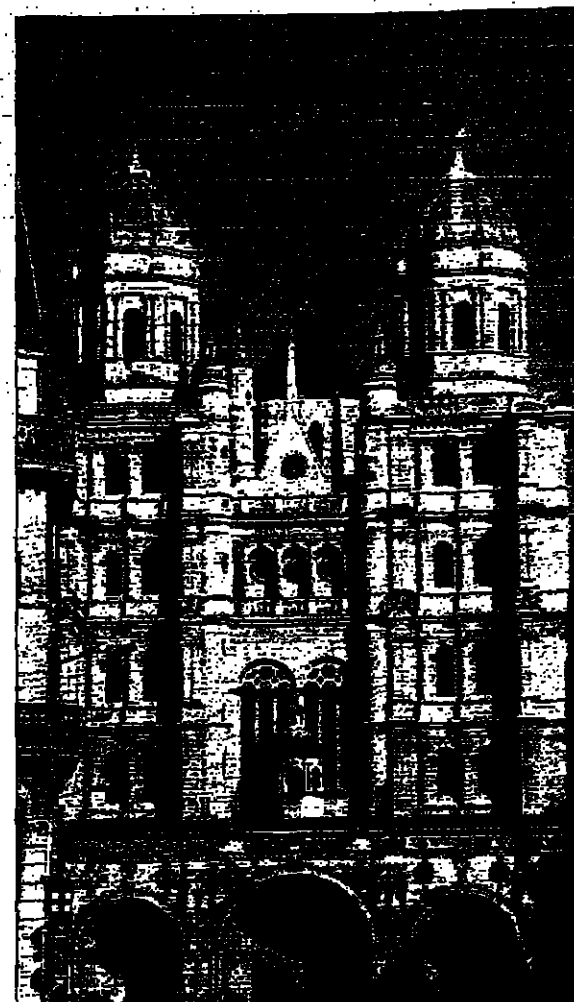
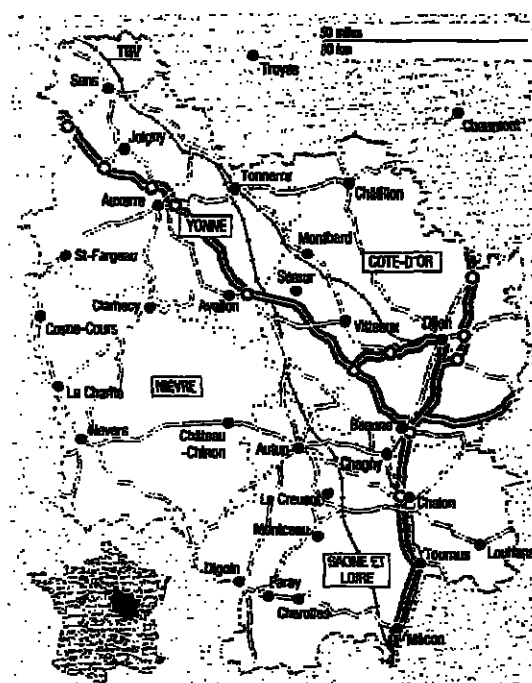
This will not be as easy as its privileged geography suggests. Burgundy finds itself bordered by the two wealthiest regions in France: the Île-de-France region of Paris and its surrounds, and the Rhône-Alpes centred on Lyon. Both in terms of economic activity and population, Burgundy is in a smaller league. Its 1.6m population is one of the lowest in France, and densities in the east and accounts for under 3 per

cent of the country's GDP. The population in the post-war years has grown well below the national average and the region has seen relatively little immigration. The rural population has shrunk, notably in the wild semi-mountainous Morvan area in central Burgundy. (Mobile phone coverage, the symbol of modernity, is not yet complete here). But the northern part of Burgundy round Sens has become caught up in the Paris region's pole of attraction; and, at the other end, Macon has found the Lyon area a magnet.

This pattern has been accentuated since the early 1980s by the high-speed (TGV) train link between Paris and Lyon, which bypassed Dijon. "For the past 15 years, we have ceased to have so much contact between Dijon and Lyon because of the Paris-Lyon TGV line," says senator Maurice Lombard, chairman of the body running the greater Dijon area. "We also find qualified young people being pulled towards Paris and Lyon and have to fight hard to counter this."

But Burgundians are scarcely hard done by. Drive through the neatly kept historic towns and villages, often graced by magnificent Romanesque churches, and they exude a comfortable prosperity. The long restaurant menus, rich with local delicacies, are a constant reminder that they have got their priorities right.

The economy itself is well balanced between industry, agriculture and services. There has been a largely successful reconversion of the heavy industry and the engineering business round Creusot-Loire and Chalon, which threatened employment two decades ago.



The church of St Michel in Dijon

Cultivated Dijon

Cistercian monks first spread the renown of Dijon in the 11th century and played an important part in refining the cultivation of vines in the surrounding countryside. Now France's ninth biggest city and the capital of the Burgundy region, Dijon remains one of the best preserved large historic centres in France.

The city retains an enviable mix of university life, quality restaurants, monuments and industrial vitality based round its strategic location in Europe's transportation system.

Greater Dijon now accommodates almost 250,000 people. Growth is being shaped round the concept of the Burgundian capital acting as hub for agri-business, biochemistry and food technology, spearheaded by a newly-established Institute of the Sense.

It is also attempting to catch up with other cities such as Montpellier and Strasbourg in the convention business: two major conference centres are now operating and a new 1,600-seat auditorium with the best state-of-the-art acoustics in the country is finishing its trials.

Indeed, the most dynamic development has taken place round Chalon, which was hard hit by industrial reconversion and has been helped by EU aid funds.

Dominique Perben, the long-time Gaullist mayor of Chalon, believes this is because he had to try harder. "We are very professional and actively seek out investments with three people whose job is to knock on doors lobbying companies to locate with us." Last year, 11 companies pledged new projects creating 600 jobs in the Chalon area.

Investment, both foreign and French, has steadily grown. Despite the relatively small and dispersed workforce, Burgundy was sixth in terms of investment projects in 1998. Between 1996-98 the number of jobs created by foreign investment has jumped from 600 to just under 1,500. Last year, foreign investments worth FF472m were approved. Significantly, these tended to be more expansion of existing plant than new operations, suggesting the investors' long-term commitment to their Burgundian locations.

Agriculture, driven by the added value of the wine business and the seemingly unstoppable demand for top quality Burgundy reds and whites, continues to be strong; and the impending shake-up of the EU's Common Agricultural Policy should not have a serious negative impact on the region.

The service sector is expanding fastest, especially

round Dijon, in activities related to transportation, warehousing and logistics. But tourism still remains an under-developed resource.

Such a balance has enabled Burgundy to take full advantage of the French economic recovery. The jobless rate is 10.5 per cent of the active workforce, a full percentage point better than the national average. However, more than one third of jobs are in the public sector. This limits the role of private enterprise but clearly helps underpin household consumption, especially since the Jospin government conceded a general real pay increase covering 1998-99.

One of Burgundy's weaknesses in promoting development is the relatively small number of even medium-sized businesses with a headquarters in the region. "Over 75 per cent of industrial employment in establishments employing over 20 people depends upon groups which, for the most part, have their headquarters outside the region," notes a recent regional study. This puts a premium on the regional administration understanding business needs and ensuring Burgundy retains its attractions.

Since last April, Burgundy has had a new council headed by Jean-Pierre Soisson, a former minister, mayor of Auxerre and who, briefly, held the job from 1992-93. The 64-year-old Mr Soisson fought the elections heading the list of the centrist UDF. With the left and right equal with 24 council

members each, he opted to rely on the nine votes of the racist National Front to form an administration. A similar alliance in the Rhône-Alpes region provoked an uproar and eventually led to the unseating of the Front-backed government there.

However, Mr Soisson has proved a willing politician, and the milder criticism of his reliance upon the Front has now evaporated with the recent split in this party. Five councillors have been left backing the line of the Front's long-time leader, Jean-Marie Le Pen, and could eventually be absorbed by the mainstream right; the other four have swung behind Bruno Mégret, who led the breakaway. "I'm a firm believer in decentralisation and will do as much as possible to ensure we focus properly on handling those aspects of development that fall within our competence," says Mr Soisson, who, as a minister, relocated the elite civil service college, ENA, to Strasbourg from Paris.

More than 40 per cent of the 1998 budget went on education and this emphasis, as in most other French

regional administrations, will not change. However, he will try to cut back administrative costs (resisting, among other things, the introduction of the 35-hour week) and reduce spending to ease the debt service cost.

New emphasis will be placed on professional training and links between industry/business and the higher education. He has also signalled his desire to reduce the local tax burden by ending the regional stamp duty of FF225 charged on driving licences.

But the project he wishes to secure during his administration is the construction of a new TGV rail link from Dijon, running east to Mulhouse on the German border that would cut times with the major German cities.

The government is studying the idea but has given priority to a costly new TGV eastern line out of Paris to Strasbourg and no decision is likely before two years. All the local politicians are backing the project. If adopted, Burgundy would become a real nodal point for freight and other operations.

ECONOMY by Robert Graham

Motoring along nicely, on back of national recovery

The region continues to enjoy the benefits from wine-making and agriculture, with a helping hand from the automotive industry

Of all France's regions, Burgundy has managed to retain one of the most well-balanced economies. Activity is spread right through heavy and light industry to a strong agricultural base with high added value plus a services sector which is expanding fast.

By virtue of its geography close to the main European markets, the economy also has an important export vocation. As a result, Burgundy has been able to reap the benefits of France's economic recovery. This took hold in late 1997 on the back of an export boom and has been since sustained by government-stimulated domestic demand. Overall, unemployment is 10.5 per cent, a percentage point below that of France as a whole.

Burgundy's population in agricultural employment continues to be above the national average of 4.8 per cent at just over 7 per cent. This is because large parts of France are covered by flat capital-intensive cultivation.

In the case of Burgundy, the percentage devoted to such capital-intensive crops as cereals and, latterly, rapeseed, is smaller. But in contrast, the region benefits from the highly successful wine-business and a long-standing tradition of cattle farming (the famous Charolais) which combine to let agriculture generate 6 per cent of the region's output. The latter also contribute to agro-industries and the tourist sector.

A large area is covered by the wild semi-mountainous

Morvan and one third of Burgundy is wooded. The big chunk of the Morvan right in the centre of the region is the least populous part, helping to explain why Burgundy has a population density almost half the national average. Burgundy's population averages 51 per kilometre but in 48 central cantons the density falls as low as 20.

The most populous parts follow the road-rail communications, and are usually close to the three principal river systems: the Loire, Saône and Yonne. The Dijon-Macon corridor is the most economically dynamic, followed by the Yonne valley from Auxerre to Sens, along with the upper reaches of the Loire round industrial Nevers. With the draw of the Paris region at one end and the Lyon area at the other, Burgundy's overall population has grown only 1 per cent from 1982-90, four times below the national level.

A new census being taken this year is expected to confirm this tendency. The main exception will continue to be the Côte d'Or along the Beaune-Dijon axis, which benefits from the central transport connections linking Burgundy to the rest of France.

The census is also expected to highlight how the under 30s tend to be attracted to the big cities, especially Paris and Lyon, while Burgundy draws people back later in their working life and certainly for retirement. Already at the last census in 1990, the

proportion in Burgundy of retirement age was over 17 per cent compared to the national average of under 15 per cent.

Industry accounts for almost a quarter of the workforce. This has remained fairly constant over the past two decades even though the heavy industry centred round Creusot-Loire has seen major upheavals. Despite the difficulties experienced by steel and heavy engineering in Creusot-Loire, the area has avoided becoming a "rust belt" and has successfully reconverted. It retains some of the big employers, notably Alstom (casting and welding for train coaches) as well as a special steels capacity.

Overall, Burgundy's industry survived the recession of the early 1990s in reasonable shape. The automotive sector, in particular, has grown in strength with the presence of plants of Michelin, Peugeot, Iveco and a host of suppliers led by Valeo.

About 180 companies are linked directly to the automotive sector, employing more than 15,000. In such activities as exhaust pipes, dashboards, security belts and anti-theft devices, a further 700 companies are estimated to be working as subcontractors. Hand-in-hand with this sector, Burgundy also houses a growing plastics and pharmaceuticals industry.

The bulk of employment, however, continues to be generated in the services. Burgundy has 63 per cent of the workforce in services, slightly below the national average. While the numbers involved in commerce have declined in the past decade,

those in hotels and restaurants has grown almost 20 per cent to more than 15,000.

In terms of the local economy, a more important phenomenon has been the sustained rise in public sector employment, especially in health and social services. Between 1989-94, the last available figures, the number jumped 5,300 to 27,400.

Overall, the public sector accounts for more than a third of all jobs in Burgundy. Between the central civil service, local administrations, a big military presence, the health services, teachers, employees of the railways (SNCF), the post office (La Poste), the state electricity concern, EDF, and France Telecom (still majority state-controlled), there are almost 170,000 persons.

Given that public sector salaries have been increased well above inflation in 1998 and again for this year, the presence of this large number of "safe" jobs provides a significant underpinning to the region's household consumption. Furthermore, in the more remote areas, the villages and small towns are almost entirely sustained by state salaries and pensions.

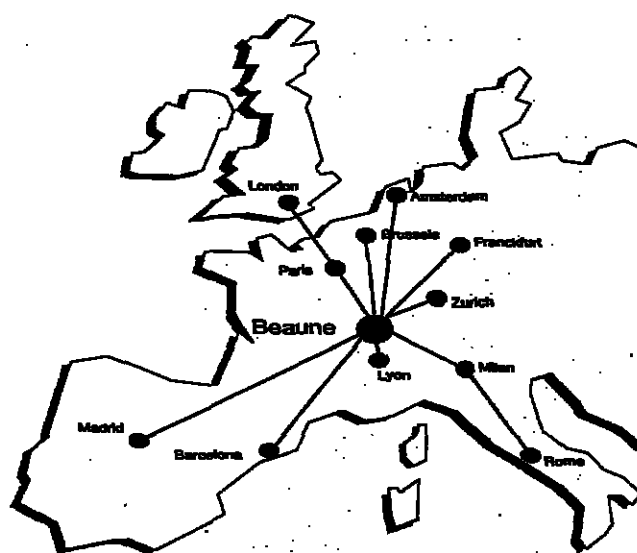
Politicians of all colours back this big public sector. But with La Poste, EDF and the SNCF beginning to face outside competition in France, some of these jobs must be seen to be at risk. At the same time, the national defence budget is under threat. This means that, in the future, the private sector will be called upon to generate more jobs.

These could come partly through tourism, further development of agri-business and increased investment in transportation.

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- ¥ great French lifestyle
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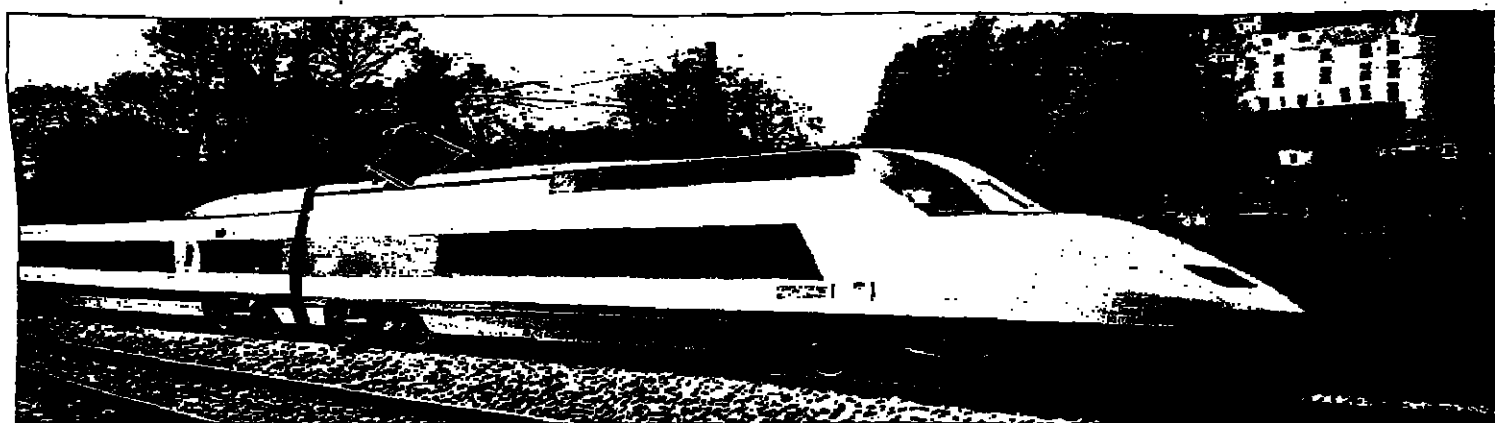
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e-mail: Cci.Beaune@wanadoo.fr



Handwritten signature: J. P. Michel

BURGUNDY II



Express rider: France's train à grande vitesse has bypassed Dijon, the capital city of Burgundy

INFRASTRUCTURE by Robert Graham

Link up to TGV, très vite!

The Côte d'Or wants the full benefits of France's high-speed railway system

Any conversation about the development of Burgundy quickly touches on rail links and the extension of the TGV (train à grande vitesse) high-speed line east from Dijon to Mulhouse on the Alsatian border with Germany.

This new line is seen as the central element in a new series of infrastructure projects that will ensure the region capitalises on its geography in the next century.

Fast trains will accelerate dramatically the north-south and east-west communications in Europe and set a new pattern of freight movement and passenger behaviour that will, in turn, determine corporate locations.

Burgundians have already seen the impact of the Paris-Lyon TGV line, which started full operation in 1981. It brought the core of the Rhône-Alpes region within two hours of Paris but bypassed Dijon, the capital of Burgundy. Though the route passed through Burgundy - there is a small

TGV fork linking the conventional Paris-Dijon rail line - the region has not been a major beneficiary of France's high-speed rail system.

Instead, Burgundy has benefited from its nodal position in France's major road network, enabling it to become a logistical and warehousing centre for many national and foreign businesses.

But without some movement off the roads and into rail-freight and more imaginative use made of multi-modal transport (road-rail-water), Burgundy's already heavily used trunk road system will become saturated in the early years of the next century.

The A6 is the country's most heavily used highway, running from Paris to the south, and is at its most crowded on the Beaune-Macon stretch, where traffic filters to and from the north and east.

Burgundy is the transit route for 75 per cent of all road traffic between Spain

and Germany; it acts as the main truck line between the industrial regions of northern Italy and northern Europe; it also channels half the road freight between the UK and Spain and acts as an important funnel for goods to and from Switzerland. Roughly six times more freight is carried by road through Burgundy than by rail.

Despite the logic of switching to rail and speeding up travel times within France and across Europe, any decision on new investments will be influenced by politics.

The Jospin government decided earlier this year to give the go-ahead to a new FF20.5bn (£3.12bn) TGV line running from Paris to Strasbourg. Due to halve travel times to just over two hours, the 320-km line will be completed by 2006.

The decision was not based on financial logic but a statement of France's will to ensure the seat of the European parliament in Strasbourg be properly con-

nected to the French capital and locked into better links with German cities such as Frankfurt.

The agreement on the Paris-Strasbourg project involved central government, regional administrations and EU funding. The central government agreed to provide FF7.8bn, and no new major national rail project is likely to find funding before 2001, if then. However, the backers of the 190-km Dijon-Mulhouse link believe it could be up and running by 2005.

The region fully backs the project, tentatively estimated at FF12bn. The aim is to ensure it is accompanied by a TGV branch from Besançon down to Bourg-en-Bresse and on to Lyon, giving a much quicker interconnection between Switzerland, Germany and France.

It would also speed up traffic all the way through to Marseilles and Montpellier in the south, with the prospect of an eventual TGV link-up with Spain.

As its proponents argue,

this would provide the missing link in a network connecting Frankfurt and the Benelux countries with the Mediterranean and Catalonia. Frankfurt would be five hours from Marseilles.

In freeing up existing passenger routes, they maintain the railways would be better able to carry freight and think more of combining transportation with the 1,000 km of navigable waterways in Burgundy.

Local politicians are relying on the project to be championed in the Jospin government by Jean-Pierre Chevènement, the interior minister, whose political fiefdom is Belfort, through which the Dijon-Mulhouse TGV line must pass.

But they also hope the government will give priority to the scheme after premier Lionel Jospin cancelled plans in 1997 to construct a 220-km canal connecting the rivers Rhine and Rhône via the Saône and the Great Canal of Alsace.

Not only was the project extremely costly at about FF25bn, it was considered harmful to the environment with large tracts of natural landscape being altered. Burgundian politicians maintain at least some of the government funds earmarked for this scheme should be now diverted to the TGV.

Even if the proposed new TGV network takes longer to materialise, the regional authorities will press ahead with developing more road-rail freight centred on Beaune, Chalon-sur-Saône, Dijon and Macon.



PROFILE GUY ROUX

Paying penalty of football fame

A poster on the way to Auxerre's Abbé Deschamps football stadium features Zinedine Zidane, hero of France's World Cup victory. "I love making you win," says the slogan. It would make a good motto for Guy Roux.

In 38 years at the helm, the man who is almost certainly the longest-serving coach of a single first-class European football club has taken Association de la Jeunesse Auxerroise - better-known as AJ Auxerre - from the equivalent of the French fifth division to the European Champions' League.

In the process, helped by his frequent TV appearances, Mr Roux, 60, has become a national figure. If there were a poll to determine the most famous Bourgignonn in contemporary France, there is a good chance he would win. Not bad for a stocky, self-professed "paysan", or "man of the earth", from Colmar in eastern France, whose entry in Who's Who reveals that he collects postage stamps.

Interviewed in his modest office, behind a cluttered desk, Roux intimates that there are times when he finds his celebrity status "too much". He says: "Being well known is going to a restaurant and not being able to eat because you are signing autographs all the time."

But there are some moments he evidently still gets a kick out of. "I am very popular with children. I am a sort of Tintin or Asterix. A cartoon figure, not a man. They call me 'Guyroux' in a single word. So, I am in my car in Paris, in a quarter where I don't know anyone and a class of 30 seven-year-olds walks by. One sees me - 'It's Guyroux' - and they surround the car. I wind down the window. They want me to sign. There is a

mile-long tailback. Honk, honk, honk."

A delightful, entertainingly blunt raconteur - in spite of the previous night's home defeat by Toulouse - he attributes his unprecedented longevity (in footballing terms) partly to the presence of the same club chairman for all but two of his 38 years. "What gets coaches sacked is the league table," he says.

Impressive as the changes have been at Auxerre over the years, a club near Chablis country in a not obviously football-mad town of about 40,000, would probably have found it impossible to climb as high as it has up football's greasy pole were it not for the lack of really big French clubs of the stature of Manchester United, Barcelona or Juventus.

Mr Roux attributes this state of affairs in part to high taxes and social charges. "France is at a disadvantage on a fiscal level," he says. "There is a lot of tax and a lot of social charges compared with all our neighbours, compared with Italy, Spain, England and Germany. And so all the good players leave."

"In France, we also have less television money and alcohol-related advertising is forbidden." He does not exactly say he would like French clubs to be able to list on the stock market, but he believes it is inevitable.

French players - and recently French coaches - have enjoyed more success. In the case of the latter, he ascribes this to the high level of training they now receive. "I think French coaches are trained in a more scientific way than, for example, English managers."

He speaks of one of his former players, now playing in England, who told him that, in terms of preparation and diet, England was "a century behind". Later, Mr Roux talks briefly of his own



Roux 38 years as coach of Auxerre football club

little-known career in English football. "In 1960, I was player number 29 for Crystal Palace for one month in July. I was very well received, but they were in the third division."

For all his rugged exterior, he wants nothing for astuteness, as indicated by his telling of the story of how Andrzej Szarmach, the Polish World Cup striker, came to play for then newly-promoted Auxerre as early as 1980.

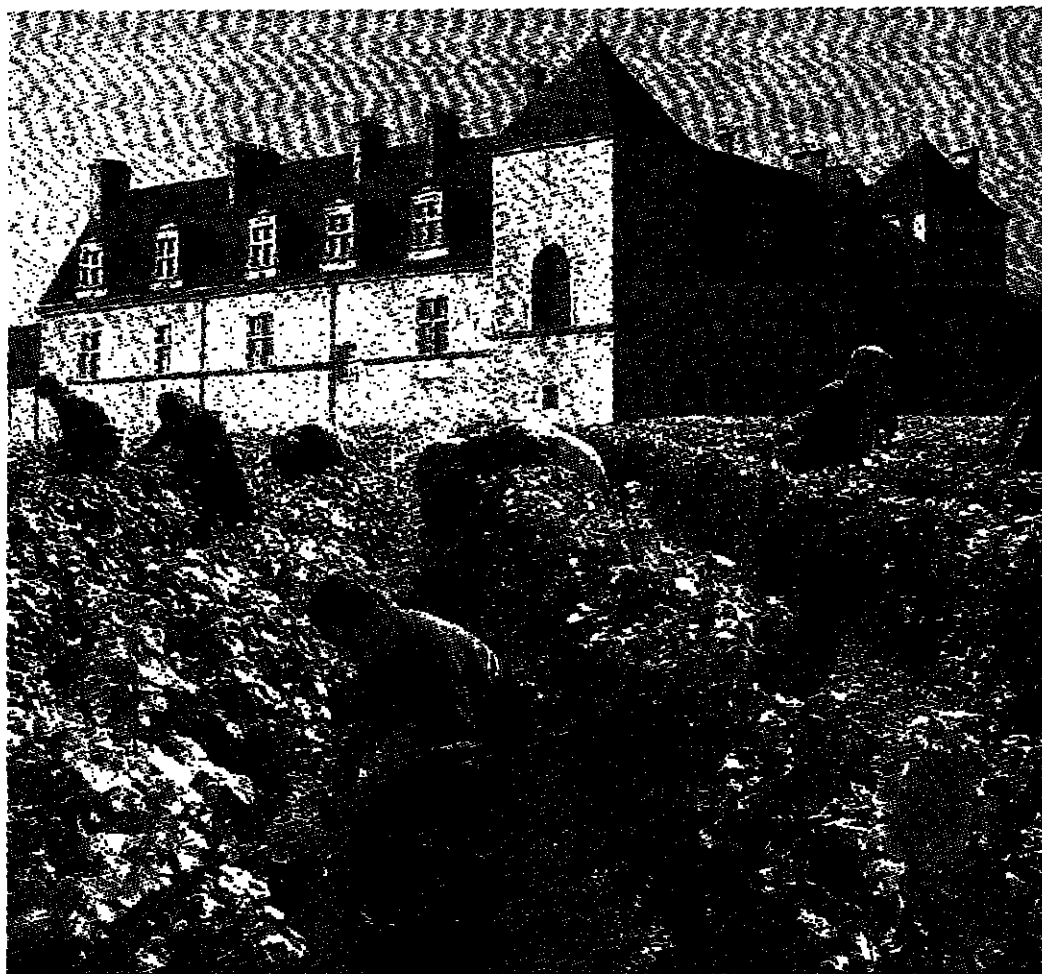
"That was an extraordinary adventure because they were Communists. The French sports minister was the mayor of Auxerre, monsieur Soisson, and the Polish sports minister wanted to be on the International Olympic Committee. He needed the Francophone votes. Soisson gave him the Francophone votes. Afterwards, I went to see him and said you must give me a signature for the players. And he gave me the signature. They were extraordinary circumstances."

Other well-known players have passed through the club, including Eric Cantona, the brilliant but volatile former Manchester United playmaker. Mr Roux's zest for the game is evident in all he says and does as well as the extraordinary collection of artefacts and bric à brac that surrounds him: ancient boots, a terracotta bust, a handsome, well-mounted clock given to him by the father of a player from Côte d'Ivoire.

But one day, as he acknowledges, it will be time to give up. "I will continue for as long as I can physically and as long as I want to," he says.

David Owen

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WINE by Robert Graham

A case for more vineyards as the demand grows

Exports are worth FF4bn a year and account for 10 per cent of total French market. They rose 21 per cent in 1997-98

Seeing the vineyards of the Côte d'Or covered in thick snow and ice earlier this month, it is hard to imagine they have produced with regularity over many centuries some of the finest wines in the world.

Burgundy's climate can be harsh and making wine here is a highly skilled operation. There is never the predictability enjoyed by the harvest of the grapes in the New World. But the commitment of generations of growers to quality sustains the high reputation of Burgundy red and white wines.

"We stand out like a tailor-made suit in a ready-to-wear market," says Christophe Denœl, who is in charge of research and marketing at the Bureau Interprofessionnel des Vins de Bourgogne (Bivd), the body which supervises the industry.

The area under cultivation is no more than 25,000 ha with an average annual production in the past decade of 1.3m hectolitres. This amounts to only 2.5 per cent of total French wine production, although Burgundy represents 5 per cent in volume of exports. Between 50-60 per cent of production in any one year is exported, a far higher percentage than other regions.

At the same time, because Burgundy's wines are essentially aimed at the top end of the market, its exports are worth almost FF4bn and account for 10 per cent of total French wine exports.

In 1997-98, the most recent year, exports were up 8 per cent in volume and 21 per cent in value. However, there were wide variations in price rises pending upon the 'appellation'. For instance, Chablis white wines produced from chardonnay grapes grown in the north, near Auxerre, and well separated from the

main wine growing area, saw prices rise the least (seven per cent).

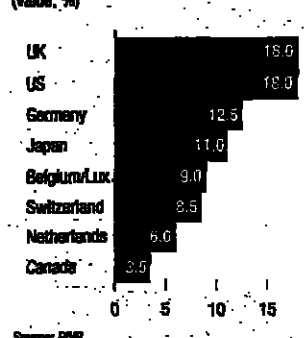
Chablis is the 'appellation' which faces the greatest international competition from New World wines, many of which have set out to imitate Chablis (including the name). "In general, Burgundy producers have more demand than they can meet," says Mr Denœl. "Our domestic market is basically the local region and Paris; the rest is for export," he adds.

The strong demand from overseas clients has been responsible for upwards pressure on prices. However, the Bivd, which represents both producers and wine merchants, is acutely aware that prices have to be closely monitored to avoid uneven movements.

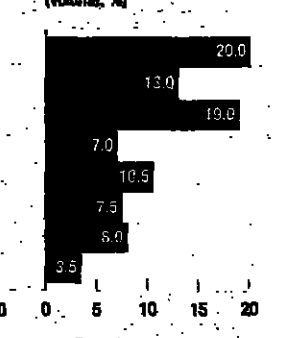
One of the interesting features of the traditional family nature of the business in Burgundy is the way in which a sizeable portion of production is sold directly by the growers themselves. In average years, this is around 25 per cent of production. The wine merchants, for their part, a few of whom have also bought up vineyards, account for 65 per cent of sales. The rest is sold by co-operatives.

The UK is the largest market, accounting for 13 per cent in volume, with sales benefiting the past three years from Britain's buoyant economy and strong pound. In 1997-98, sales to the UK were up 21 per cent in volume terms with red wine increasing a remarkable 45 per cent.

The US economy has also seen strong demand for the pricier labels even if volume has remained below 8 per cent of total sales. Japan, another important market (and representing 8 per cent of the export volume), has held up despite its stagnant

Wine exports
Principal destinations in 1998
(Value, %)

(Volume, %)



economy. Sales to Japan have quadrupled in the past decade. The emerging markets crisis has had no noticeable impact.

Shifting tastes have had an important effect on the balance in production between red and white wines. Burgundy reds remain as popular as ever in France but the export market is increasingly favouring whites. Whereas only 42 per cent of the harvest in 1975 was taken up by whites, the proportion has now grown to 58 per cent.

The emphasis on the top end of the market is in good measure a function of property ownership and the small area under production. There are 4,300 separate vineyards covering 96 different 'appellations'. The average holding is not much more than 6 ha. This eliminates economies of scale and puts the emphasis on skillful cultivation and production, usually on a family basis.

Of the 10,000 people directly living off the business, at least 5,400 are reckoned to be owners and their families.

Properties are also kept within the families and it is rare to find a property going to any outsider other than a wine merchant. The Bordeaux region, for instance, has seen a rash of prestige investments by wealthy Frenchmen and foreigners. Also, the fragmentation of

ownership means a large number of producers share the same 'appellation' - it can be as many as 80. This encourages competition for quality and individuality.

With demand so strong, there is pressure within the Bivd to raise the amount of land under vine. As much as 8,000 ha could be brought under cultivation, equivalent to increasing the current area by almost a third.

At present, the EU in Brussels is reluctant to endorse across the board increases in the area under vine in any country, other than on a very gradual and limited basis. This hurdle of EU wine production ceilings must first be overcome.

However, the Bivd must agree among its members on whether to expand. Those favouring the expansion argue there should be more demand-led growth. The industry is also aware that inheritance practices are changing: to prevent small holdings being split between several heirs, a system of de facto primogeniture is taking root.

As a result, a number of people who, in the past, would have expected to run their own vineyards, are without properties.

Against this, there is a strong argument that extending the area under vine increases the risk of diluting quality. It also risks pushing the long-term price down.

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TOURISM by David Owen

The attractions of a delightful landscape

Although British and German tourists are the most frequent visitors to the region, there was an increase of 20 per cent in the number of Japanese tourists last year

In the small, rather downcast-looking town of Saint-Sauveur-en-Puisaye lies one of Burgundy's most intriguing tourist attractions.

Housed in a yellow-walled chateau beside a massive, ancient, brooding tower, the Musée Colette pays haunting tribute to one of Burgundy's most celebrated daughters: the writer, Sidonie-Gabrielle Colette, who was born in

Saint-Sauveur 126 years ago. If the museum's exhibits - ranging from photographs and mounted butterflies to recreated rooms - are not extensive enough to be wholly satisfying, they nonetheless shed much light on the life of this extraordinary woman.

The delight of the place is in the detail: an address book, open at 'D', lists a Périgean address for Raoul

Dufy, presumably the painter. Many other Bourguignons have left their mark on history, including Gustave Eiffel, Jean-Philippe Rameau and Pierre Lerousse (he of the dictionaries). Louis Chevrolet (of the US car company) nearly qualifies, too.

Born in Switzerland, he lived in Beaune from the age of four to 29 before a chance encounter precipitated his

emigration. It is strange to think that, had things turned out differently, the first Chevy might have been built in this handsome Burgundy wine town.

Canon Kir, who bequeathed his name to the popular aperitif, is perhaps a more typical local celebrity: a high proportion of the region's best-known attractions are associated, after all, with either religion or wine.

Indeed, no fewer than seven of the region's 10 most popular cultural tourist sites have religious connotations. Most visited of all, with an estimated 300,000 visitors a year each, are the basilicas of Vézelay and Paray-le-Monial.

The sublime abbeys of Fontenay and Cluny are also on Burgundian soil. There must be something in the region's rolling hills and well-watered greenery that attracts the spiritual side of human nature.

With other attractions including a large fleet of canal and river boats and a richly deserved reputation for good living, it is surprising that Burgundy is no better than eighth out of 21 French regions for visits by foreign tourists and 11th for their French counterparts.

Nonetheless, with more than FF1bn a year spent by tourists and an annual peak of more than 30,000 salaries wholly or partly linked to the tourist business, the sector makes an important contribution to the local economy.

By way of comparison, based on figures supplied by Burgundy Development, this is estimated to be about half the annual turnover of the region's food and agriculture industry and twice that of the celebrated wine sector.

Germans and combined British and Irish are the



Chevrolet Corvette: the car that still carries Louis Chevrolet's name. He lived in Beaune for nearly 20 years

most frequent visitors to the region's hotels, with more than 200,000 of each arriving in the course of last year.

The regional tourism committee is hoping to see an improvement in transport links with the UK, such that six or seven fast trains a day will, in time, link London to

Dijon in around five hours. It says there is only one such train a day at present. Another feature of last year was a near 20 per cent increase to more than 20,000 in the number of Japanese visitors to Burgundy hotels.

Overall, however, 1998 saw a more than 2 per cent decline to just over 3m in

visitors to the region's hotels. With one of the steepest falls coming in June, it is no surprise that the tourism committee attributes this partly to the impact of the football World Cup, which was held in France.

Burgundy, however, staged no matches and, according to the committee,

hosted none of the 32 teams. Another characteristic of the region's tourist trade is the relatively short length of average hotel stays. This is said to be because many visitors use Burgundy as a pleasant and peaceful stop-off point to break long journeys to the Mediterranean and elsewhere.

PROMOTION

Image business in focus

Burgundy continues to make headway with its image-making credentials

As the place where photography was invented by Nicéphore Niépce more than 170 years ago, Burgundy has impeccable image-making credentials.

So it is fitting that, with the wealth of new opportunities opened up by the advent of digital technology, the sector has emerged in recent years as a potentially powerful motor for regional economic development.

According to Dijon Promotion, the development agency for the Dijon area, about 70 companies engaged in some aspect of the image business have been identified, more than half of them in the Dijon region.

These companies range

from the venerable 160-year-old Nacet microscope-manufacturing concern, to Acti-System, a small but increasingly well-known Dijon operation, which was founded seven years ago; the latter company specialises in the use of optoelectronic methods to measure motion in three dimensions.

Edgard Daurer, Dijon Promotion's director, says that between 200 and 300 jobs have been created in the region in recent years in small and medium-sized companies engaged in one aspect or another of the image business.

"We are really at the starting point of a complete sector of activities," he says.

"We are reaching a level of critical mass that is interesting for developing synergies."

In encouraging the development of this high-tech sector in a part of France more traditionally associated with fine wines and food products, the region is drawing on the high level of expertise developed in local educational and research establishments.

"The university understood that image-making was going to be important," says Eric Verrechia, chairman of the image-making 'pole' at Burgundy university.

"In the next five years, progress is going to be daz-

zling. I think quite simply that we are entering a new era, going from documents printed on paper to documents that are digital but above all dynamic," says Mr Verrechia.

Part of Dijon Promotion's role has been to encourage the main actors to work together and to help companies and researchers to identify what are likely to be the most fruitful market applications, whether in the medical, industrial or entertainment sectors.

"We try to make sure the mix is right," says Mr Daurer.

David Owen



Sidonie-Gabrielle Colette, the French writer, was born in Burgundy

Mary Evans Picture Library



PROFILE
PLASTO

Old family business sticks to sales expansion target

When a Dijon-based chemist named Fournier applied a few drops of glue on a small strip of cloth to make the first sticking plaster in the early 1930s, little did he know that he had just entered a new sector - industrial adhesives - that the family business would soon dominate.

Almost 70 years after the invention of sticking plaster, the family-run pharmacy has grown into the Fournier pharmaceutical group, which employs more than 3,500 people and had sales of FF3.2bn in 1996.

The sticking tape activity, now a fully-owned subsidiary called Plasto, has become France's biggest - and Europe's second biggest - producer of industrial adhesives, with more than 800 employees and sales of FF572m last year.

Plasto, still controlled by the Fournier group, was set up as a separate business in 1952, with the French army as one of its main customers, purchasing Plasto tape to seal ammunition crates.

Although the company's growth has relied on

innovation and diversification, its four main activities (healthcare, car components, DIY and construction, and industry) still revolve around one core product: adhesives.

Philippe Winter, general manager, says future growth will continue to rely on innovation. Plasto spends the equivalent of 6 per cent of its turnover on research and development, and aims constantly to achieve 30 per cent of its sales with products that are less than three years old.

International diversification is another favoured avenue for growth.

Although its location in Chénov, a suburb of Dijon, is fortuitous - the Fournier group has been there since it was founded in the early 1880s - Plasto has clearly benefited from being "in the centre of Europe".

Within easy reach of the Italian, German and Swiss borders, Dijon is also barely two hours away from Paris by train and just a short drive away from Lyons.

Other groups involved with the car industry also have plants nearby. They include TRW, the US company, and Valéo, France's largest car components manufacturer. PSA-Peugeot-Citroën, one of the two biggest French automobile groups, also has a factory in the region.

One shortcoming of Dijon's location is the scarcity of intercontinental connections. For Plasto, the problem became particularly relevant with last year's opening of the company's US plant, its first in a country outside the European Union. Plasto was ready for the launch of the European single currency earlier this year.

Like many other French companies, it is expected to benefit from the euro, which should facilitate sales in the euro-zone, now that currency risk has been totally removed.

"The euro brings with it

both risks and opportunities," says Mr Winter. "We chose to focus on the opportunities."

However, the creation of a borderless market for its products will force Plasto to increase its marketing and sales efforts in an environment that is bound to become more competitive. Productivity gains will also be necessary.

With its largest customers - retailers and car manufacturers - constantly applying pressure to keep margins tight, Plasto will also have to explore markets outside France and the EU.

Last year, for example, Plasto's turnover rose only 5.6 per cent, although sales had grown "somewhat more than that in volume terms".

Mr Winter says: "Car manufacturers [which account for about 45 per cent of Plasto's sales] demand price cuts every year." Plasto already operates a production site in the US, with a local partner. Plans to build plants in Latin

Plasto's general manager says it spends the equivalent of 6 per cent of its turnover on research and development

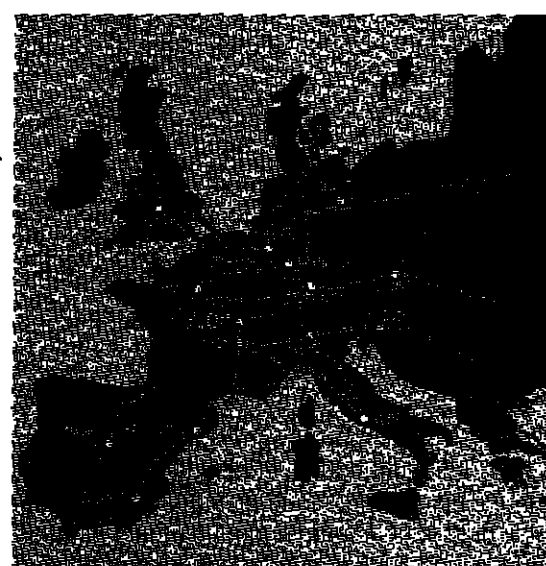
America were put on hold last year, in the wake of the emerging markets crisis, notably financial turmoil in Brazil. The project for a Brazilian site should be revived before the end of this year, followed by another in Argentina.

"We accompany our large customers overseas," says Mr Winter. "Also, all our production sites are operated with a local partner. We choose partners that are similar to us in terms of size."

Mr Winter says the company will meet its target, set in 1996, of doubling the proportion of international sales to 40 per cent of turnover by 2000. Last year, overseas sales accounted for roughly 35 per cent of total activity.

Samer Iskandar

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CURRENCIES & MONEY

Dollar slides as Mr Yen keeps mum

MARKETS REPORT

By Alan Beattie

The dollar fell back to the ¥120 level against the yen yesterday as US and Japanese officials would not be drawn on a suitable level for the exchange rate.

Eisuke Sakakibara, the vice finance minister for international affairs known as Mr Yen, claimed that dollar-yen movements were not discussed at yesterday's meeting of the "Six Markets Group" of Asia-Pacific countries, which includes the US.

This disappointed some traders, who had been hoping Mr Sakakibara might indicate his preferred level for the yen against the dollar. The dollar lost some of its recent gains, closing in London at ¥120.1 against the yen.

But few analysts were prepared to infer another policy change from the silence out of Japan. "It is hard to

believe that the Six Markets Group did not discuss dollar-yen at all," said Gerard Lyons, chief economist at DKB International in London. "But the Japanese seem to have settled for a stable but somewhat weaker yen, in the ¥120-125 or even ¥120-130 range," he added.

With dollar assets looking less attractive, the yen-dollar rate might well stay around the ¥120 level "by default," Mr Lyons said.

The Chilean peso dropped yesterday as the prospect of diminished equity-related capital inflows compounded the fall-out from Brazil.

The peso opened lower after shareholders in Enxeris, the Chilean electricity company, voted against

allowing the limit for a single shareholder to rise from 32 to 65 per cent of the company. This scuppered the planned takeover of Enxeris by Endesa, the Spanish energy company, and disappointed those traders who had already priced in a large capital inflow as a consequence of the takeover.

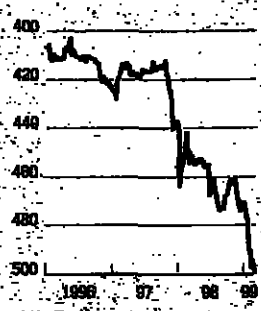
The peso depreciated below the 500 peso level against the dollar, before appreciating to just above that level by the London close.

Analysts said that the peso, which has already fallen rapidly this year, was vulnerable because of the recent currency turmoil in Brazil.

"Chile's high dependence on intra-regional trade, added to the fact that monetary policy is on a loosening path, means that any large external shock is likely to lead to the peso devaluing," said David Lubin, emerging markets economist at HSBC.

CHILDREN'S PAPER

Against the dollar (pence per £)



Source: Bank of England

MR LUBIN SAYS

David Lubin said that the key determinant for future movements in the Real would be the terms of the fiscal package attached to the IMF deal.

"The market doubts that the government's primary surplus will be enough to offset the fiscal cost of the crisis," Mr Lubin added.

Mr Lubin said that Brazil faced a different version of the dilemma Asian countries encountered in 1997.

"The Asian vicious circle was currency collapse leading to higher interest rates and then to capital flight

because of the effect on corporate balance sheets," he said.

"But in Brazil's case capital flight follows the effect of higher interest rates on public sector finances," Mr Lubin said. "The public sector is at the heart of Brazil's problems," he added.

The Vietnamese central bank took a small step towards a free-floating dong yesterday, announcing it would allow the currency to move gradually over time.

Until now the dong moved within a 7 per cent trading band, with the mid-point set by the central bank. But there has been pressure for a new system, after a series of devaluations since mid-1997 forced by emerging market turmoil in the region.

The dong will now be allowed to rise or fall by up to 0.1 per cent daily, with the mid-point each day set by the previous day's interbank market rate.

OTHER CURRENCIES

Feb 25

Czech Rep 100:000 - 55.1015 54.300 - 54.340

Hungary 100:000 - 202.250 202.250 - 202.250

Poland 100:000 - 1.950 1.950 - 1.950

Romania 100:000 - 1.950 1.950 - 1.950

Slovakia 100:000 - 1.950 1.950 - 1.950

Slovenia 100:000 - 1.950 1.950 - 1.950

Ukraine 100:000 - 1.950 1.950 - 1.950

Yugoslavia 100:000 - 1.950 1.950 - 1.950

POUND SPOT FORWARD AGAINST THE POUND

Feb 25

Change on day

Market spread

Day's bid

Day's ask

One month

Three months

Six months

One year

Bank of England

Source: Reuters

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 25

Change on day

Market spread

Day's bid

Day's ask

One month

Three months

Six months

One year

Bank of England

Source: Reuters

CROSS RATES AND DERIVATIVES

Feb 25

Change on day

Market spread

Day's bid

Day's ask

One month

Three months

Six months

One year

Bank of England

Source: Reuters

EXCHANGE CROSS RATES

Feb 25

Change on day

Market spread

Day's bid

Day's ask

One month

Three months

Six months

One year

Bank of England

Source: Reuters

UK INTEREST RATES

Feb 25

Change on day

Market spread

Day's bid

Day's ask

One month

Three months

Six months

One year

Bank of England

Source: Reuters

EMS EUROPEAN CURRENCY UNIT RATES

Feb 25

Change on day

Market spread

Day's bid

Day's ask

One month

Three months

Six months

One year

Bank of England

Source: Reuters

WORLD INTEREST RATES

MONEY RATES

Feb 25

Change on day

Market spread

Day's bid

Day's ask

One month

Three months

Six months

One year

Bank of England

Source: Reuters

INTERNATIONAL CURRENCY RATES

Feb 25

Change on day

Market spread

Day's bid

Day's ask

One month

Three months

Six months

One year

Bank of England

Source: Reuters

THREE MONTH EURO LIBOR FUTURES (LFF) 100-100

Feb 25

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Three months

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One year

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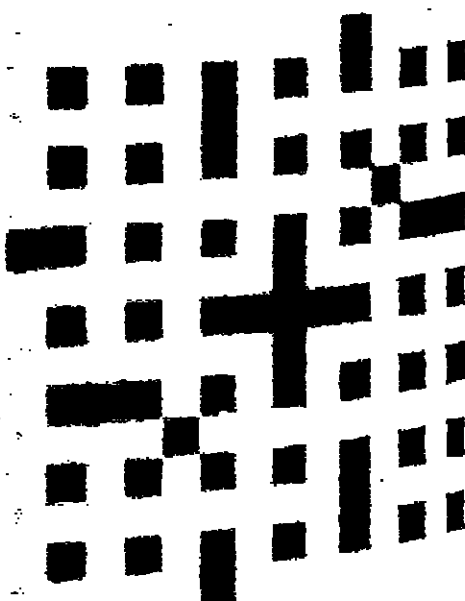
One year

Bank of England

Source: Reuters

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LONDON SHARE SERVICE

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LONDON STOCK EXCHANGE

US nervousness takes Footsie back from peak

MARKET REPORT

By Peter John

Nobody really expected the London market to remain at its rarefied level, but nor did anyone foresee such a fall.

The FTSE 100 index encountered the initial attack of profit-taking that was almost bound to follow Wednesday's 150-point surge to an all-time closing high.

But then the profit-taking carried on. And then it carried on some more. By the close, Footsie had lost more than two-thirds of its previous rally to end the day

down 101.1 at 6,206.5. Nevertheless, it remained above the previous record close of July 1998, a point considered significant, at least by the chart-based bulls.

The disparity between the internationally influenced Footsie and the more domestic junior indices was once again apparent.

The FTSE 250 index, which was still 12.5 per cent below its peak when it opened yesterday, rose 5.9 to 5,226.1. The SmallCap edged forward 2.8 to 2,271.3.

Problems originated, as they often do, in the US. A long-dated bond auction on

Wednesday was poorly received and conspired with signs of strong economic growth to send Treasury bond yields to their highest level for six months.

London tried to shrug off the feel-bad factor in the morning and managed to show a net gain after half an hour. Then confidence began to unwind.

Glaxo announced a regulatory problem with one of its products and the positive trend that has pervaded the concentrated results season received a knock after the latest figures from Legal & General.

Hopes of a more settled afternoon session were offset by the latest US data. Durable goods figures showed a 3.8 per cent rise in January as well as being revised upwards for December.

US bonds fell another point and UK gilts followed suit.

Stretched gilt-equity valuations cracked and Footsie was taken back to below 6,200 as the Dow Jones Industrial Average recorded an early fall of around 150 points.

Equities were also undermined after Byron Wien, the strategist at Morgan Stanley

Dean Witter, advised investors to cut their US equity weightings from 30 per cent to 25 per cent.

Further pressure came from Asia when Hutchison Whampoa, the Hong Kong conglomerate, placed 50m shares in Orange through Goldman Sachs. In addition, Colt Telecom said it planned to raise \$500m via the issue of ordinary shares and convertible notes.

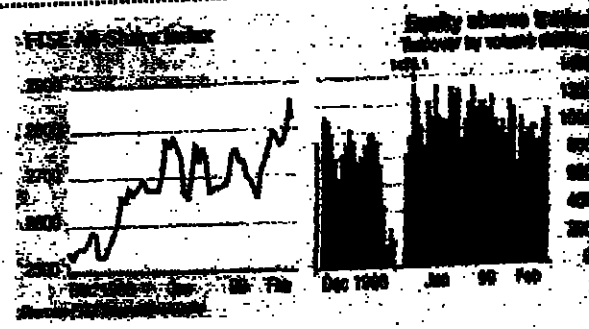
The extra shares flooding, or potentially flooding, onto the market dampened any remaining enthusiasm.

However, David McBain at BT Alex Brown said the

same involved were irrelevant in comparison to the huge amounts of cash being returned to shareholders via buy-backs.

"We are well placed to have a record year for capital returns. It could be up to 50m this year compared to 31m last year. Also, cash coming back to the market from takeovers could reach £25m compared with £27m last year."

Turnover, which was boosted by the Orange stake sale, remained heavy at 1.14bn shares, with more than 60 per cent represented by Footsie stocks.



Index and ratios	FTSE 100	FTSE 250	FTSE SmallCap	FTSE All-Share	FTSE All-Share yield
FTSE 100	6206.5	5226.1	2271.3	5226.1	2.70
FTSE 250	5226.1	5226.1	5226.1	5226.1	2.70
FTSE SmallCap	2271.3	2271.3	2271.3	2271.3	2.70
FTSE All-Share	5226.1	5226.1	5226.1	5226.1	2.70
FTSE All-Share yield	2.70	2.70	2.70	2.70	2.70

Best performing sectors: 1. Life Assurance, 2. Engineering, 3. Consumer Goods, 4. Chemicals, 5. Other Financial.

Orange and Colt tumble

COMPANIES REPORT

By Joel Kibazo and Martin Brice

Telecom issues weighed on the market when a placing was carried out in mobile telephones group Orange, and Colt Telecom announced plans to raise cash.

US investment bank Goldman Sachs took on 50m shares at 85p from Hutchison Whampoa of Hong Kong, the single biggest investor in the UK group, and placed them with a range of institutional investors at 86p. Dealers suggested the investment bank made a turn of around 57m. The sale saw Hutchison reduce its holding from 49.1 per cent to 44.8 per cent but remain the biggest shareholder.

The move cast a shadow over the euphoria that had greeted better-than-expected figures from Orange. Losses were reduced to £38.1m from £138.1m against expectations of about £110m. The shares, having initially risen to 96p, retreated to close 51p or 5.37 per cent down at 907p.

Early rumours had suggested British Aerospace to be the largest seller of Orange. BAE said it had no plans to sell its 5 per cent stake, although it did not see the holding in Orange as core to its operations.

Colt Telecom slipped 131 or 10.36 per cent to £11.45 after it announced plans to raise \$500m in new capital to finance the expansion of its infrastructure including national and international facilities linking its local networks.

News of the fund-raising came as the company announced 1998 results, showing losses had increased to £55.6m from £32.5m a year earlier.

News of a setback for Glaxo Wellcome prompted a wave of selling which saw the pharmaceuticals giant relinquish 82 to £20.66 in trade of 7.4m.

Mark Tracey at Goldman Sachs said: "This reminds us of the risk profile of the anti-franchise but also that some recent product launches have not gone

Sentiment was hit by overnight news that Glaxo's flu drug Relenza had failed to clear an advisory panel of the US Food and Drug Administration.

With Glaxo said to account for around 6.4 per cent of the FTSE 100, dealers said the fall in the stock had contributed to the day's reverse in the Footsie.

The FDA panel said Glaxo had failed to prove Relenza's effectiveness.

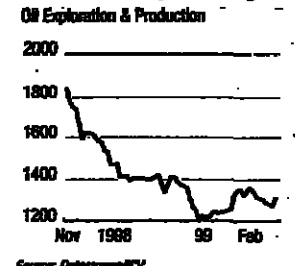
Mr Tracey believed Glaxo, which has been a strong performer in recent sessions, is more than fully valued at current levels.

However a less bearish analyst said: "It is a shock that Relenza has not been cleared but as a new drug it was always going to have a few problems. Let's remember it is only likely to account for about one per cent of group sales in 2002. I think it will be cleared later this year."

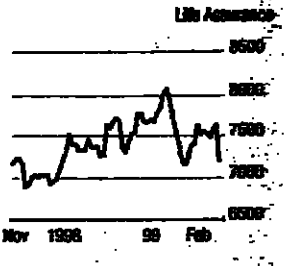
In the rest of the sector, vague rumours of a share buy-back from SmithKline Beecham did the rounds in the market yesterday after the company said it is to seek permission from shareholders to repurchase up to 10 per cent of its share capital. Having risen early in the day, the sellers later gained the upper hand leaving the stock to drift 35p lower to 889p. Turnover was 9.2m.

Demand for Medeva made it the best performing stock in the FTSE 250 after the

Best and worst performing FTSE sectors



Life Assurance



shares rose 9 or 9.23 per cent to 106p.

Legal & General suffered a savage markdown amid shareholder disappointment at a fall in profits from new business. The shares, which started last year at 52p, were the worst performers in the Footsie, falling 12 per cent or 10p to 78p. Volume was 10m.

The stock had a lot of froth in it at 907p according to one analyst. There was disappointment that the embedded value in the company, or net asset value, was shown by the company to be 34p, whereas 37p had been expected by some in the City. At that level, the shares had been trading at 2.6 times book value, while many in its peer group had been standing at about 1.6 or 1.7 times book value.

Bae weighed down

Fears for the future revenue stream from the Al Yamamah contract weighed on British Aerospace, although it announced a strong profit rise before exceptional. There was also concern over BAE's share of the continuing losses at Airbus Industrie, due to pressure on margins in civil aviation. The shares, which were off 51p in January, were off 21 at 40p. Volume of 11m was among the heaviest in the FTSE 100.

Paul Compton at Merrill Lynch, said: "Al Yamamah is putting pressure on the

software retailer Game saw the shares rise 9 per cent or 12 to 142p.

Traders said shareholders were unlikely to agree to an offer for the company, which is in bid talks with Electronics Boutique, for much less than last year's 200p flotation price.

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FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIVERPOOL) 100 per cent index point	Open	Settle	Change	High	Low	Settle	Open
Mar	6206.5	6206.5	+110.0	6316.5	6106.5	6206.5	10617.2
Jun	6206.5	6206.5	+110.0	6316.5	6106.5	6206.5	2276.0
Dec	6206.5	6206.5	+110.0	6316.5	6106.5	6206.5	2276.0

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LONDON RECENT ISSUES: EQUITIES

Issue	Amount	Label	Price	Yield	Dividend	Dividend Yield
BP	100	100	100	100	100	100
BP	100	100	100	100	100	100
BP	100	100	100	100	100	100

RIGHTS OFFERS

Issue	Amount	Label	Price	Yield	Dividend	Dividend Yield
BP	100	100	100	100	100	100
BP	100	100	100	100	100	100
BP	100	100	100	100	100	100

FTSE GOLD MINES INDEX

Index	Open	Settle	Change	High	Low	Settle	Open
Mar	6206.5	6206.5	+110.0	6316.5	6106.5	6206.5	10617.2
Jun	6206.5	6206.5	+110.0	6316.5	6106.5	6206.5	2276.0
Dec	6206.5	6					

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 25) 1 € = 13.7603 S

BELGIUM (Feb 25) 1 € = 40.3390 F

GERMANY (Feb 25) 1 € = 1.9365 DM

FRANCE (Feb 25) 1 € = 6.5595 F

ITALY (Feb 25) 1 € = 1936.2700 Lira

NETHERLANDS (Feb 25) 1 € = 2.2037 Fl

PORTUGAL (Feb 25) 1 € = 200.4820 Esc

SPAIN (Feb 25) 1 € = 166.3860 Ptas

UNITED KINGDOM (Feb 25) 1 € = 1.9365 DM

EUROPE (NON-EMU) Prices in £

Greece (Feb 25) 1 £ = 340.75 Dr

Ireland (Feb 25) 1 £ = 7.8756 P

Poland (Feb 25) 1 £ = 200.4820 Esc

Sweden (Feb 25) 1 £ = 10.4657 Krona

Switzerland (Feb 25) 1 £ = 1.7558 Sfr

Turkey (Feb 25) 1 £ = 1.7558 Sfr

New Zealand (Feb 25) 1 £ = 1.7558 Sfr

South Africa (Feb 25) 1 £ = 1.7558 Sfr

Japan (Feb 25) 1 £ = 1.7558 Sfr

Korea (Feb 25) 1 £ = 1.7558 Sfr

Taiwan (Feb 25) 1 £ = 1.7558 Sfr

Hong Kong (Feb 25) 1 £ = 1.7558 Sfr

Singapore (Feb 25) 1 £ = 1.7558 Sfr

Malaysia (Feb 25) 1 £ = 1.7558 Sfr

Indonesia (Feb 25) 1 £ = 1.7558 Sfr

Philippines (Feb 25) 1 £ = 1.7558 Sfr

Thailand (Feb 25) 1 £ = 1.7558 Sfr

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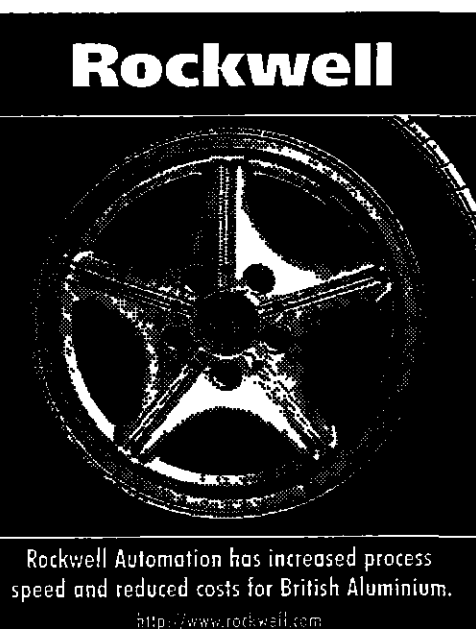
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Rockwell Automation has increased process speed and reduced costs for British Aluminium.

<http://www.rockwell.com>

FTSE ACTUARIES WORLD INDICES

The FTSE Actuaries World Indices are owned by FTSE International Limited, London, and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

WEDNESDAY FEBRUARY 24 1999									
NATIONAL AND REGIONAL MARKETS	US Dollar Index	Day's Change	52 Week High	52 Week Low	YTD %	1 Year %	3 Year %	5 Year %	10 Year %
Australia (75)	121.51	-0.7	121.51	121.51	22.84	0.4	3.30	214.21	197.09
Austria (21)	182.90	-0.6	182.90	182.90	182.90	-0.3	1.36	182.90	182.90
Belgium (22)	330.20	-1.3	330.20	330.20	330.20	-1.1	1.80	330.20	330.20
Canada (113)	100.05	0.1	100.05	100.05	100.05	0.6	0.23	100.05	100.05
Denmark (34)	211.14	-1.9	211.14	211.14	211.14	-1.9	1.51	211.14	211.14
Finland (29)	447.37	-1.3	447.37	447.37	447.37	-1.1	2.04	447.37	447.37
France (74)	615.81	0.1	615.81	615.81	615.81	0.2	1.73	615.81	615.81
Germany (25)	291.81	-0.1	291.81	291.81	291.81	0.2	1.28	291.81	291.81
Greece (26)	282.95	1.2	282.95	282.95	282.95	1.5	1.36	282.95	282.95
Hong Kong (66)	393.71	7.0	393.71	393.71	393.71	0.1	1.18	393.71	393.71
India (44)	279.99	2.4	279.99	279.99	279.99	0.1	1.18	279.99	279.99
Indonesia (24)	46.74	1.9	46.74	46.74	46.74	0.1	1.18	46.74	46.74
Italy (76)	336.52	0.3	336.52	336.52	336.52	0.1	1.18	336.52	336.52
Japan (143)	170.56	1.7	170.56	170.56	170.56	0.1	1.18	170.56	170.56
Korea (28)	36.01	-0.3	36.01	36.01	36.01	0.1	1.18	36.01	36.01
Malaysia (28)	128.00	0.7	128.00	128.00	128.00	0.1	1.18	128.00	128.00
Netherlands (28)	480.04	0.2	480.04	480.04	480.04	0.1	1.18	480.04	480.04
New Zealand (28)	68.09	-0.8	68.09	68.09	68.09	-0.5	1.18	68.09	68.09
Poland (28)	222.80	-0.7	222.80	222.80	222.80	-0.5	1.18	222.80	222.80
Portugal (16)	244.31	-0.8	244.31	244.31	244.31	-0.5	1.18	244.31	244.31
South Africa (28)	233.71	0.8	233.71	233.71	233.71	0.1	1.18	233.71	233.71
Spain (28)	281.78	0.6	281.78	281.78	281.78	0.1	1.18	281.78	281.78
Sweden (28)	238.33	-0.1	238.33	238.33	238.33	0.1	1.18	238.33	238.33
Switzerland (28)	181.44	0.1	181.44	181.44	181.44	0.1	1.18	181.44	181.44
Taiwan (28)	211.14	0.1	211.14	211.14	211.14	0.1	1.18	211.14	211.14
Thailand (28)	211.14	0.1	211.14	211.14	211.14	0.1	1.18	211.14	211.14
United Kingdom (201)	380.13	1.3	380.13	380.13	380.13	0.1	1.18	380.13	380.13
USA (613)	517.27	-1.4	517.27	517.27	517.27	-1.4	1.21	517.27	517.27
AMERICAS (794)	458.47	-1.4	458.47	458.47	458.47	-1.4	1.21	458.47	458.47
Europe (228)	320.46	-0.8	320.46	320.46	320.46	-0.8	1.20	320.46	320.46
Asia (242)	101.37	0.8	101.37	101.37	101.37	0.8	1.20	101.37	101.37
Latin America (144)	200.47	0.1	200.47	200.47	200.47	0.1	1.20	200.47	200.47
Pacific (270)	200.47	0.1	200.47	200.47	200.47	0.1	1.20	200.47	200.47
South America (144)	200.47	0.1	200.47	200.47	200.47	0.1	1.20	200.47	200.47
Europe Ex UK (228)	320.46	-0.8	320.46	320.46	320.46	-0.8	1.20	320.46	320.46
Europe Ex UK Ex Germany (180)	281.78	0.6	281.78	281.78	281.78	0.6	1.20	281.78	281.78
Europe Ex UK Ex Germany Ex France (144)	244.31	-0.8	244.31	244.31	244.31	-0.8	1.20	244.31	244.31
Europe Ex UK Ex Germany Ex France Ex Italy (108)	200.47	0.1	200.47	200.47	200.47	0.1	1.20	200.47	200.47
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain (72)	166.39	0.1	166.39	166.39	166.39	0.1	1.20	166.39	166.39
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal (46)	132.21	0.1	132.21	132.21	132.21	0.1	1.20	132.21	132.21
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece (26)	108.04	0.1	108.04	108.04	108.04	0.1	1.20	108.04	108.04
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland (29)	83.75	0.1	83.75	83.75	83.75	0.1	1.20	83.75	83.75
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland (29)	59.46	0.1	59.46	59.46	59.46	0.1	1.20	59.46	59.46
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark (34)	35.17	0.1	35.17	35.17	35.17	0.1	1.20	35.17	35.17
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway (29)	10.88	0.1	10.88	10.88	10.88	0.1	1.20	10.88	10.88
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden (29)	8.44	0.1	8.44	8.44	8.44	0.1	1.20	8.44	8.44
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria (21)	6.00	0.1	6.00	6.00	6.00	0.1	1.20	6.00	6.00
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium (22)	3.56	0.1	3.56	3.56	3.56	0.1	1.20	3.56	3.56
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands (28)	1.12	0.1	1.12	1.12	1.12	0.1	1.20	1.12	1.12
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg (28)	0.68	0.1	0.68	0.68	0.68	0.1	1.20	0.68	0.68
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland (28)	0.24	0.1	0.24	0.24	0.24	0.1	1.20	0.24	0.24
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan (143)	0.10	0.1	0.10	0.10	0.10	0.1	1.20	0.10	0.10
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea (28)	0.06	0.1	0.06	0.06	0.06	0.1	1.20	0.06	0.06
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan (28)	0.02	0.1	0.02	0.02	0.02	0.1	1.20	0.02	0.02
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan Ex Hong Kong (66)	0.01	0.1	0.01	0.01	0.01	0.1	1.20	0.01	0.01
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan Ex Hong Kong Ex Singapore (28)	0.00	0.1	0.00	0.00	0.00	0.1	1.20	0.00	0.00
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan Ex Hong Kong Ex Singapore Ex Malaysia (28)	0.00	0.1	0.00	0.00	0.00	0.1	1.20	0.00	0.00
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan Ex Hong Kong Ex Singapore Ex Malaysia Ex Indonesia (24)	0.00	0.1	0.00	0.00	0.00	0.1	1.20	0.00	0.00
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan Ex Hong Kong Ex Singapore Ex Malaysia Ex Indonesia Ex Philippines (28)	0.00	0.1	0.00	0.00	0.00	0.1	1.20	0.00	0.00
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan Ex Hong Kong Ex Singapore Ex Malaysia Ex Indonesia Ex Philippines Ex Thailand (28)	0.00	0.1	0.00	0.00	0.00	0.1	1.20	0.00	0.00
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan Ex Hong Kong Ex Singapore Ex Malaysia Ex Indonesia Ex Philippines Ex Thailand Ex Vietnam (28)	0.00	0.1	0.00	0.00	0.00	0.1	1.20	0.00	0.00
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan Ex Hong Kong Ex Singapore Ex Malaysia Ex Indonesia Ex Philippines Ex Thailand Ex Vietnam Ex Laos (28)	0.00	0.1	0.00	0.00	0.00	0.1	1.20	0.00	0.00
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea Ex Taiwan Ex Hong Kong Ex Singapore Ex Malaysia Ex Indonesia Ex Philippines Ex Thailand Ex Vietnam Ex Laos Ex Cambodia (28)	0.00	0.1	0.00	0.00	0.00	0.1	1.20	0.00	0.00
Europe Ex UK Ex Germany Ex France Ex Italy Ex Spain Ex Portugal Ex Greece Ex Ireland Ex Finland Ex Denmark Ex Norway Ex Sweden Ex Austria Ex Belgium Ex Netherlands Ex Luxembourg Ex Switzerland Ex Japan Ex Korea									

IN.SECTS (Pan European Sector Indices from EuroBarb®)									
The IN.SECTS is an European equity sector index from EuroBarb® - contain only those listed details but show every sector's performance in their info-memo. The index is expressed in the euro sector level. Using the correlation of each sector's level against with the sector level to weight the constituents, an even weighting is achieved ensuring maximal diversification while offering the best sector tracking available. (Values presented with 1K = million)									
Sector	EST	Close	Previous 24-02-1999	Change on Day	% Change	% IN.SECT	% IN.SECT 1998		
Ath	Parade (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Aut	Autos (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Chem	Chem (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Engin	Engin (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Equip	Equip (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Food	Food (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Indus	Indus (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Med	Med (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Met	Met (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Pharm	Pharm (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Tele	Tele (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Trans	Trans (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Util	Util (20)	100	100.00	0.00	-0.0	-0.0	100.0		
Worl	Worl (20)	100	100.00	0.00	-0.0	-0.0	100.0		

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GLOBAL EQUITY MARKETS

US INDICES

Index	Feb 25	Feb 24	Feb 23	1998	1999	1998	1999
Dow Jones	9,048.87	9,044.42	9,035.06	9,043.32	7,260.07	9,043.32	41.22
Industrial	104.84	105.09	105.20	107.17	104.42	107.17	64.08
Home Bldg	3,240.80	3,221.71	3,231.57	3,268.02	2,246.00	3,268.02	12.29
Transport	237.44	236.27	236.75	238.01	202.35	238.01	16.33
Utilities	125.01	125.18	125.14	125.04	124.94	125.04	4.40
Comp. Ind.	151.28	153.11	153.15	153.05	107.40	153.05	3.52
Finance	132.80	132.75	132.77	147.88	147.88	147.88	2.13
Other	591.57	598.02	600.23	611.08	477.20	611.08	4.94
Amex Comp	885.70	709.92	700.03	780.87	553.75	780.87	584.30
NASDAQ Comp	2,238.28	2,276.36	2,242.01	2,276.36	1,474.12	2,276.36	54.24
Russel 2000	368.28	369.00	367.82	368.28	367.82	368.28	123.36

RATIOS

Index	Feb 19	Feb 12	Feb 5	Year ago
Dow Jones Ind. Div. Yield	1.89	1.89	1.89	1.89
S & P Ind. Div. Yield	1.19	1.15	1.15	1.15
S & P Ind. P/E ratio	37.72	38.00	38.55	27.24

INDEX FUTURES

Index	Open	Settle	Change	High	Low	Est. vol.	Open int.
Mar EAP 100	1263.70	1263.00	-10.30	1268.00	1258.00	115,950	380,882
Jun	1261.00	1260.50	-0.70	1265.50	1250.50	15,001	95,140
Mar EAP 225	1261.00	1260.50	-0.70	1265.50	1250.50	15,001	95,140
Jun	1261.00	1260.50	-0.70	1265.50	1250.50	15,001	95,140

WORLD MARKETS AT A GLANCE

Country	Index	Feb 25	Feb 24	Feb 23	1998	1999	% Ytd	% FE
Argentina	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Australia	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Belgium	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Canada	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
France	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Germany	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Italy	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Japan	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
South Korea	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Spain	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Sweden	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Switzerland	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
Taiwan	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
UK	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00
US	100	100.00	100.00	100.00	100.00	100.00	0.00	0.00

US DATA

Index	Feb 25	Feb 24	Feb 23	1998	1999	1998	1999
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MARKET ACTIVITY

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INDIAN INFRASTRUCTURE

FRIDAY FEBRUARY 26 1999

Bumpy ride for foreign investors

Eight years after the gates were opened to private and overseas interests there is a sorry tale of unrealised ambitions, writes **Mark Nicholson** in New Delhi

India's airports and hotel lobbies, these days, to the sound of cellphones - there are now more than 1m Indian mobile phone users. In unassuming Indore, business capital of Madhya Pradesh state, a pioneering private telephone service is offering the local government operator its first taste of competition.

The \$2.5bn Dabhol power project, cause célèbre of India's first openings to foreign investment in electricity, is finally pumping megawatts into the grid of Maharashtra state. A privately-funded airport is taking shape in Cochin. A few private roads and ports are emerging in some Indian states.

Eight years after India opened its gates to private and foreign investment in infrastructure there is progress. But, given India's gargantuan needs and the high ambitions of successive governments since economic liberalisation began in 1991, progress has been mixed and modest. If India's economic growth rate has slowed from above 7 per cent in the mid-1990s to a more sluggish 5 to 5.5 per cent, much of the blame can be attributed to the increasing deadweight of India's ailing infrastructure.

"India is way behind," says the senior official with an international financing institution. "It is really extreme in the poor state of its infrastructure relative to its development."

To cite a few examples, India

has not a kilometre of world-standard motorway to its name; the number of telephones per person, at 2 per 100, is among the lowest in the developing world; power shortages lag demand by an average 8 to 9 per cent, the gap reaching 18 per cent at peak times.

For foreign investors, initially excited by the apparent prospects implicit in such deficiencies, however, the past eight years' journey has often been as crawling and bumpy as an Ambassador car ride over a potholed Indian road.

In critical sectors such as power and telecoms, ambitious policies to attract private investment have often foundered on policy revision and review, bureaucratic delay, political controversy and other, often unforeseen, costs and complexities.

Foreign investors, too, have often proved over-optimistic. A gaggle of foreign independent power developers rushed to sign memorandums of understanding (MOUs) with state governments in the early 1990s, only to find their projects bedevilled with bureaucratic impediments and often hobbled by the inability of insolvent state governments, the main power purchasers, to pay. Dabhol, developed by Enron, the US energy group, is one of just 16 private power projects commissioned in the last five years, disappointing fruit of more than 70 MOUs.

Local and international telecoms companies bid high for

licences to provide cellular and basic telephone services during a sweeping 1994 government auction, only to find they had mostly overestimated demand, underestimated costs, and failed to reckon with emerging regulatory difficulties.

In all, says a senior World Bank official, the past eight years have proved an arduous learning process both for government and investor. "There was an assumption that private investors could simply enter without there being any real cost," he says. "This proved wrong. But the fault has been at both ends - a lot of developers came in without caring how they got paid. Mistakes have been learned, but the lesson is that there are no easy answers."

The result has been that the curve of foreign direct investment into infrastructure, a sector earmarked unequivocally as a priority by the four governments since 1991 and without qualm by the otherwise economic nationalist Bharatiya Janata party, which heads the

current coalition, has stayed flat when it should be soaring.

A definitive government report on India's total infrastructure financing requirements estimated in 1996 that India needed up to \$130bn sunk into power, ports, roads, telecoms and urban infrastructure between then and 2001. It reckoned another \$215bn would be needed in the five following years. But India's total foreign direct investment, for all sectors, is likely just to exceed \$30n this year, roughly the same level as last.

This low level can perhaps in part be attributed to investor aversion over the past two globally turbulent years. It is certainly not for want of government attention. Rakesh Mohan, who chaired the 1996 India Infrastructure Report, says there has generally been a continuity of effort by the four governments since 1991 towards infrastructure policy and that most of his report's recommendations on inducements and structural reforms to attract investment have been taken.

New fiscal incentives have been offered for almost all infrastructure sectors. A partly state-backed Infrastructure Development Finance Corporation has been established to provide the catalyst for private infrastructure funding. Regulatory authorities have been created for telecommunications, main ports and power, the last both at the national level and within an increasing number of Indian states. "There has been broad progress, really, on all fronts," says Mr Mohan.

Yet investment remains slow. The reasons differ by sector, although there are common factors. There is the general problem of India's cumbersome bureaucratic procedure, particularly acute for power developers which have to win innumerable project "approvals" from both central and state governments. Enron reckons its project required no fewer than 347 separate such "approvals", quite apart from the political problems its Dabhol project - India's biggest foreign investment - faced

in being cancelled, then revived, by the Maharashtra state government. That episode, too, sullied investor confidence in India.

Government inexperience in dealing with private sector entry into a previous public sector monopoly, at both central and state level, has also held up investment. The hard lesson, says Montek Singh Ahluwalia, former finance secretary and senior bureaucrat with India's planning commission, has been that "the entry of the private sector into a regulated monopoly is simply not the same as allowing people to come in and build cars". In sectors such as power and telecoms, the government has had to either create or radically overhaul regulatory systems, for example. It has also had to find new ways of forcing inefficient, and often reluctant, state entities into commercially viable contracts with private partners.

But perhaps the most vital lesson of India's faltering attempts to renovate and expand its appalling infrastructure is that

however much private investment can be attracted there will finally be no substitute for massively increased public sector investment. Mr Singh estimates that private sector investment can never account for more than 30, or at the limits 40, per cent, of overall infrastructure investment.

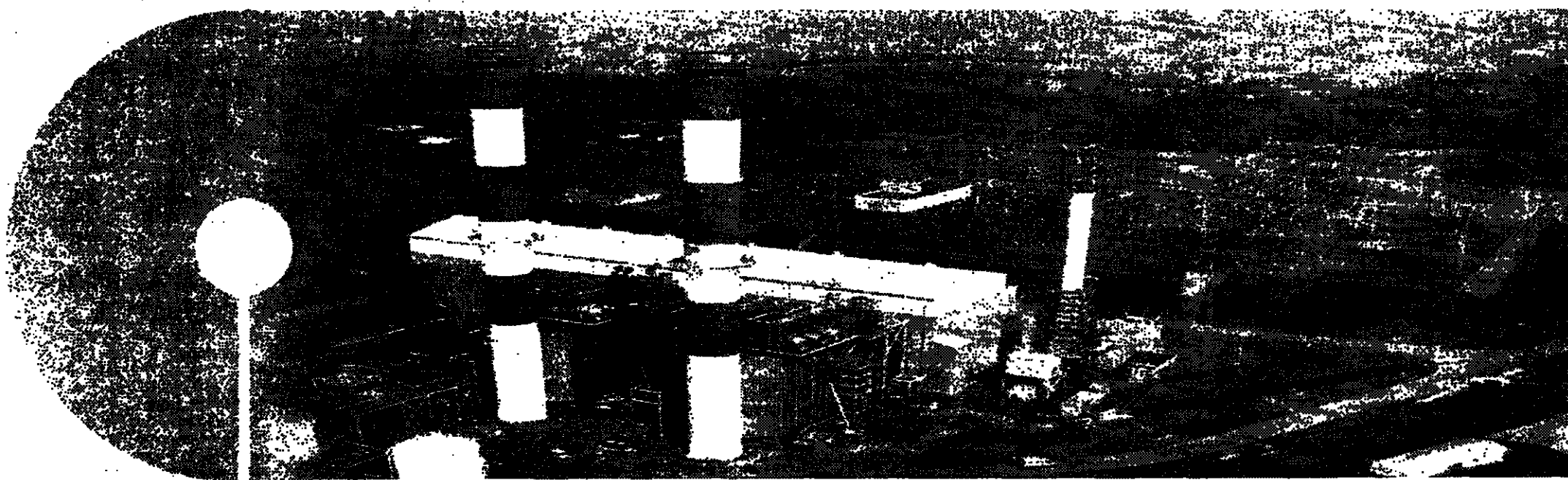
As things stand, however, with India's fiscal deficit stubbornly high at around 6 per cent of GDP, this means there is also no substitute for making existing infrastructure services pay their way and raise their own resources. This means cutting subsidies and allowing new regulatory authorities to set remunerative tariffs, free of political controls.

As Mr Mohan points out, where user charges are economically viable, the results can already be seen to be dramatic. India's state telecoms provider, for example, has increased the country's "teledensity" from below 1 connection per 100 people in 1990 to 2 per 100, an expansion almost entirely financed by internal resources. "Telecoms is the one area of infrastructure where the charges are not being subsidised," he says.

But while remunerative charges may be politically sustainable in India for telephones - still a luxury in a country where 36 per cent of the population lives below the poverty line - this is not yet so for supplies of power or water, perhaps the country's two most critical needs. Subsidised electricity, especially for farmers and domestic consumers, as well as virtually free water supplies, are still widely regarded among Indians, and certainly most politicians, as a right.

This view may slowly be changing, however, at least with regard to power. The basic impediment to investment in the power sector is the insolvency of almost all 20 of India's state electricity boards, whose utilities provide 80 per cent of the country's power. Neither can these boards, the combined losses of which amount to 1.4 per cent of GDP, afford to pay for private power, nor to invest in fresh capacity themselves. Nor will they ever, while politically-controlled state utilities continue to offer subsidies to favoured "vote

Continued on Page 2



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POWER: Overview by Mark Nicholson

Fast-track is stuck in the sidings

Developers and governments have learned some harsh lessons on the road to private investment in the electricity industry

Nowhere has the learning curve proved sharper, either for the Indian government or the legion developers who descended on Delhi in the early 1990s, than in the attempts to draw foreign and private investment into power.

Out of dire need in 1992 the Indian government for the first time encouraged private developers, local and foreign, to invest in power generation. With state electricity boards largely broke and national coffers squeezed by the attempt to rein in the fiscal deficit, the government saw no choice but to pull private capital into the effort to close the country's gaping power gap.

India's power shortages were growing increasingly grave. Demand for power outpaced demand by 8 per cent on average and by 18 per cent in peak hours, and the gap was widening. The government's eighth five-year-plan for 1992-97 had estimated that public, and some private, investment would add 30,538MW of new capacity over the period. In the event, the public purse could afford just 18,742MW.

What India needed, according to the authoritative India Infrastructure Report of 1996, was at least 55,625MW of new capacity by 2005. Along with modernisation, that came to an estimated investment bill of Rs6,000bn, and would result in capacity nearly double the 59,165MW.

The government focus at first was almost exclusively on creating fresh generating capacity. To pump prime investor interest a series of fast-track power projects, most with foreign developers, were accorded counter guarantees - essentially sovereign guarantees for payment on behalf of the insolvent state electricity boards.

From the outset the fast-track projects belied their name. Most found themselves quickly mired in complex negotiations, both with state and central governments over their power purchase agreements and a raft of other official clearances.

An overriding problem, as Delhi acknowledged from the outset by offering the sovereign guarantees, has been the inability of the state electricity boards to pay, either for themselves or someone else's generated power. These degenerating utilities provide 90 per cent of India's power yet incur losses worth 1.4 per cent of GDP.

Urged by the World Bank, and later the Asian Development Bank, a small coterie of reform-minded states began to face the inevitable and, tempted by considerable direct lending from each, began to undertake comprehensive overhauls of their utilities. Leading the trail was Orissa (see Case Study on this page), the poor eastern state, which won almost \$1bn of loans, underpinned by the World Bank.

Other states have followed, or are following. Delhi, for its part, has passed laws allowing private investment in distribution, whilst creating a national power regulator and the guidelines for state regulatory commissions.

Focus has shifted, then, from simply encouraging investors to build power stations to encouraging the states to reform and towards the problems of distribution. Transmission and distribution losses in India are twice the global average of 10 per cent and, in places like Delhi, 40 per cent. Much of it is theft (see Facing page).

But reform of the state utilities will take years before it provides a viable platform for serious investment. Even with such reform, there is still need for new capacity. Hence the government's latest bid to attract foreign investors and to overcome the chronic illiquidity of the state utilities.

The BJP-led government is inviting bids to put up 7,000MW or more of new capacity, chiefly targeting global power companies not yet tempted by India.

Tendering gets under way this month.

STATE FINANCING OF POWER by Mark Nicholson

Surging to a string of successes

PFC's no-nonsense approach to reforms is getting through to the state governments and their loss-making utilities

The last thing you might expect of any institution whose main clients are India's chronically loss-making state electricity boards (SEBs) is a buoyant balance sheet, soaring profits, highly respectable debt rating, and a solid track record in international capital markets.

Power Finance Corporation (PFC), the state-owned development finance institution for the power sector, nevertheless boasts all these. Last year's after-tax profits of Rs5.3bn were a healthy 120 per cent up on the previous year, showing a return on net worth of 22 per cent, up from 12 per cent a year earlier.

Enjoying sovereign ratings from both Moody's and Standard & Poor's credit rating agencies, PFC last year managed to raise a \$100m syndicated loan on international markets, at a competitive 1.15 per cent over Libor and just two months after India's nuclear tests and the imposition of economic sanctions.

The institution, which draws its funds from local and international borrowing along with support from the international development institutions, plans this year to raise around \$250m more from overseas markets, either through a bond issue

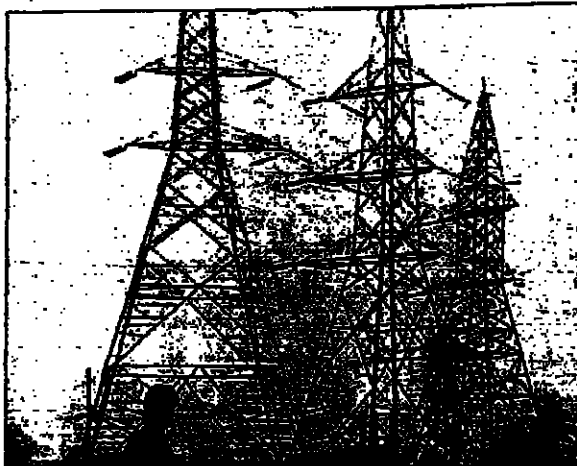
or syndicated lending.

The record is the more remarkable given that PFC's chief borrowers are India's SEBs, the politically-controlled state utilities which are mostly insolvent as a result of charging uneconomic tariffs to politically-favoured constituencies, notably farmers and household consumers.

Combined losses of India's 20 SEBs reached \$2.3bn in 1996-97, the latest figures available, not counting a further \$3bn in unpaid dues to other state and central government entities.

Nevertheless, by last year, PFC's repayment record from these horribly loss-making concerns was almost 100 per cent, according to Uddesh Kohli, PFC's chairman and managing director. Moreover, in the past three years PFC has whittled down to almost zero a total of Rs50bn in unpaid outstanding loans from the SEBs.

In part this reflects the fact that as the main government lender to the state boards, PFC enjoys a politically-privileged place among the SEBs' lenders. In part, also, Mr Kohli suggests it reflects PFC's attempts to ease the terms of loans to suit the struggling state boards, virtually none of which operate at a profit.



Electricity board losses now exceed \$2bn

Tony Andrews

But it also appears to reflect a gathering sense among India's state governments, and the state utilities they control, of the need to undertake wholesale reforms of their operations, and of the role of institutions like the PFC in helping finance such moves.

"We don't just give them money, we say 'you also have to improve your operations'," says Mr Kohli. "And the awareness is there now. There's quite a change of understanding among the states that power is needed for development, and that this in turn means they must raise tariffs and

reform, set up regulatory commissions, and so on. A lot of them feel now there is no alternative to major reforms."

As India's state governments slowly embark on the path of reform, the PFC is playing an increasingly critical role as the country's chief domestic source of financing for such moves. Total loan disbursements, for example, have risen from Rs7.5bn in 1994-95 to Rs20bn last year. Mr Kohli says he expects the total to reach Rs25bn for the fiscal year ending in March 2000.

In most cases PFC is insisting that recipient state

governments undertake some of the basic moves to staunch the losses from their utilities and place them on an economic footing. This includes moves to "unbundle" utilities which in most cases are responsible for generation, transmission and distribution, separating such functions with an eventual eye to privatisation. PFC is also insisting the states establish independent regulatory commissions to ensure the setting of commercial tariffs.

The PFC has also placed a particular emphasis on encouraging state utilities to improve efficiency rather than simply financing additional generating capacity. Mr Kohli reckons that around half of total lending is devoted to improving transmission and distribution systems and less than half as component financing in new generating projects.

He says that financing currently in place and devoted to improving the lamentable transmission and distribution losses of Indian utilities (which average more than 20 per cent - or twice the international norm) will bring up to 5bn kilowatt hours of power back into the system over the next three years.

But with new lending - and PFC is in discussions

with 12 Indian states regarding reform packages - Mr Kohli insists PFC is not insisting on the imposition of any set pattern or model of reform. "We're not insisting on the World Bank model nor the Asian Development Bank model, not insisting they unbundle or corporatise this or that element of the utility. We are saying, ultimately, what matters is the result, not the path to it."

Thus the PFC is sharing, along with the World Bank and ADB which pioneered the moves towards financing state-level power sector reform, a division of labour in encouraging the slow, but apparently sure, process of state reforms. The bank began the trend with the radical overhaul of Orissa state's utility, following up with similar lending to Andhra Pradesh and Haryana states.

The ADB, in a tacit understanding with the bank, has focused on Gujarat and Madhya Pradesh states. The PFC, meanwhile, is discussing reform with many of the other states, notably West Bengal, Assam and Punjab. By the end of 1999, the PFC hopes to have loans supporting reform packages in place for each of these three states.



CASE STUDY ORISSA

Will to reform proves to be not enough on its own

Orissa was the first Indian state to muster the political courage to break the federal government's monopoly over the power sector. But, four years down the road to reforms, the state has run into some blocks.

In August 1998 the chief minister announced that the state government would "disinvest 49 per cent in Orissa Hydro Power Corporation (OHPC) in the near future" in favour of a strategic private sector partner. An empowered committee was formed to

oversee disinvestment but, as it was about to appoint merchant bankers, the scheme was surprisingly "shelved for the time being".

The postponement has caused dismay among private power producers who want to own 49 per cent of OHPC. The utility's five hydro power stations have an aggregate capacity of 1,272MW, and OHPC is now investing Rs11.25bn in two new hydro projects with capacity of 608MW.

Harishankar Sahu, managing director of OHPC, says: "We are making profits of Rs800m a year and these will rise as new capacity is commissioned. Our company is considered a goldmine. Disinvestment will usher in a new management and culture, leading to better

efficiency."

More disappointing for the government is the lukewarm response to the attempt by Gridco, the state-owned power transmission and distribution company, to privatise the distribution business.

Gridco prepared the ground for privatisation by dividing the state into four zones - north, south, west, and central - and creating a distribution company for each zone. Gridco's plan is to sell 51 per cent of each distribution company to a strategic investor by the end of March.

Initially, about a dozen companies - including EDF of France, Eskom of South Africa and Enron of the US - were understood to be interested, but bids were received only from three

parties, with none for the Central zone.

Officials at the Orissa Electricity Regulatory Commission (OERC) say some foreign companies cried off as they viewed the state's power distribution business as being too small for them. Industry officials, however, say the unusually high level of technical and non-technical loss of electricity in Orissa and the long time it would take to set the system in order were the real sticking points.

The loss of power during transmission and distribution (T&D) in Orissa reached 48.4 per cent in 1996. SC Mahalik, chairman of OERC, describes the situation as "disturbing". He says: "I want the T&D loss to be brought down to 35 per cent in the next two years. The power tariff can be frozen at the present level, giving the utilities a reasonable rate of return, if the T&D loss is pegged at 25 per cent."

Mr Mahalik says the T&D loss in Orissa is representative of the malaise to be seen in most parts of the country. "This is because of the skewed investment in the power sector," he says. "Most of the investment is directed at building power

generation capacity. The T&D system is either inadequate or totally run-down, leading to poor evacuation of electricity from generation centres."

Orissa has received a \$350m line of credit from the World Bank and another \$78m from the UK's department for international development to strengthen the T&D system and fund a "revenue improvement action programme".

Mr Mahalik says: "Along with reinforcing the T&D infrastructure, what Orissa needs is new management techniques and the political will to curb large-scale power theft."

More successful has been the sale of 49 per cent of Orissa Power Generation Corporation (OPGC), the state-owned thermal power producer, to AES of the US. "Signs of improvement in working are already there. AES has a big stake in Orissa. It is independently building two coal-fired

power plants at Ib Valley. A separate joint venture between AES and OPGC will put up another two power units in the same region."

Orissa needs to give another big push to reforms to make the power sector viable. The OERC's Mr Mahalik says that where Orissa has succeeded is in encouraging other states to explore the possibility of unbundling the government-owned electricity boards into separate generation, transmission and distribution companies. "Progressive tariff rationalisation and reduction of cross-subsidies demand the constitution of an independent regulator on the lines of Orissa," he says.

Andhra Pradesh, the southern Indian state, is adopting the Orissa model of power sector reforms, to be supported by a World Bank \$1bn line of credit.

Kunal Bose

Bumpy ride

Continued from Page 1

banks" such as farmers. Average power tariffs in India are just 80 per cent of costs.

All manner of devices and instruments have been tried by India's government to circumvent this fundamental problem, including state finance guarantees or "escrow" financing for power projects.

But there is now acceptance among central policymakers, and gradually among state politicians, that the sole solution is to allow independent regulators in each state to set commercially viable tariffs while undertaking wholesale structural reforms of state utilities.

The World Bank and the Asian Development Bank, along with India's state Power Finance Corporation, are now making power-related lending to states only aimed at improving their utilities' revenues (see State financing of power, this page). In Orissa, Haryana,

Andhra Pradesh, Gujarat and Madhya Pradesh states, the Bank and ADB are underwriting wholesale structural reforms of the state power boards. World Bank and ADB officials say they are cautiously optimistic that a trend has been set.

Moreover, there is evidence that even India's farmers will be willing to pay more for power if it means they get reliable supplies. A "rature" scheme in Rajasthan state, for example, under which farmers can jump long queues for power connections by paying five times the connection charges and then twice the normal power tariff, has signed up 60,000 farmers in a year.

Optimists draw cautious hope. "Things are beginning to happen with regard to user charges," says S.L. Rao, the economist recently appointed as the inaugural chairman of the Central Electricity Regulatory Authority. "But it's gradual, there's no overnight transformation."



CASE STUDY CAPTIVE POWER

Rolls-Royce sees some opportunities

Once upon a time there was a natural link between rises in India's industrial production and increases in power output. No longer: economists now say there has been such a rise in the number of companies choosing to establish their own dedicated power units, or captive power, that the correlation has been broken.

There are no wholly accurate measures of the amount of captive power generated in India - the Tata Energy Research Institute reckons such small units, mostly diesel generators, added up to 11,013 megawatts of installed capacity in 1994-95, its latest estimate. That represents fully 12.5 per cent of the country's publicly-available installed capacity.

According to Rolls-Royce, the UK engineering group, it also represents a promising market opportunity. By summer, the company will have set up a "diesel cell" in India, probably in a joint venture with an Indian engineering company, to supply diesel power units for companies determined to bypass irregular and costly publicly-available power.

Rolls-Royce, already well established in India producing jet engines with Hindustan Aeronautics in Bangalore and as the main supplier of pumping engines

to the oil and gas sector, believes the captive power sector will grow to capacity of around 1500MW within the next four to five years. By then, the company hopes to be installing around 175MW a year of captive power units.

The move is an assault on a market so far dominated by Wartsila, the Finnish-based engineering group, which currently holds an estimated 65 per cent share of India's captive power market. The company installed a total of around 220MW of privately-generated electricity last year.

According to Robin Etherington, head of industrial business for Rolls-Royce in Delhi, the Indian market offers immediate prospects for sales of around 60 diesel-based power units a year, imported from the company's Bedford factory in the UK and each worth roughly \$1.6m when ancillary components are added. The company initially is focusing on selling its 5000 series diesel engines, which generate 1/2MW per cylinder and can be configured up to 20 cylinders.

The market will be small or medium sized enterprises which can better bear the costs of establishing their own dedicated power than

those of interrupted and erratic supplies from their local state electricity boards. A four-engine Rolls-Royce unit, for example, could provide enough power, at 24MW, for a 110m-tonnes-a-year caustic soda plant or a 100,000-spindle textiles mill.

Moreover, Rolls-Royce claims the average cost of power from such units over their expected 15-year life would be highly competitive. Given the heavy cross-subsidies implicit in most industrial power tariffs from state electricity boards, which overcharge industry to subsidise farmers and domestic users, India's average industrial power tariff is Rs2.83. Rolls-Royce claims its units would offer rates of between Rs2.50 and Rs3 per kilowatt hour.

Industrial power tariffs are likely to remain high for some years, with state governments probably only slowly addressing the political difficulties of charging farmers and home consumers viable tariffs. Moreover, additional generating capacity from state and central power utilities is likely only gradually to catch up India's growing power demand. Which, for Rolls-Royce, suggests further opportunities for its captive power unit in India, the company's first such venture.

In the next 18 months to two years, suggests Mr Etherington, Rolls-Royce will look at introducing gas turbine engines for captive users, including its 52MW Trent jet engine, a power-generating version of its aero engine. One of those, he says, would be quite enough to power a small industrial park.

Mark Nicholson

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Assets	222.04	1659.35

* Converted @ Rs.42.20 per US dollar (\$)

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For further information please contact:

Chris Aston in London
Tel: +44 171 873 3230
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email: chris.aston@FT.com

or Sharmila Devnani in Mumbai
Tel: +91 22 204 8890
Fax: +91 22 253 5799
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FINANCIAL TIMES

No FT, no comment.

FUNDING FOR

THEFT OF POWER by Shiraz Sidhva in New Delhi

Mission impossible — tracking pilferers

Electricity supplies are notoriously erratic; cheating consumers, not just from the poor classes, simply make the situation worse

Debasis Bagchi is a detective with a difference. Operating out of the warren of drab offices at Delhi's state electricity board in south Delhi, he painstakingly plans raids on the city's residential and industrial areas, to apprehend power thieves.

As inspector-general, vigilance, of the Delhi Vidyut (electricity) Board (DVB), he has the unenviable task of detecting and minimising electricity theft in Delhi.

The problem is chronic and widespread. If Delhi's citizens can find a way to steal power, they will. The culprits include businessmen and petty shopkeepers, the landlords with palatial bungalows in Delhi's posh enclaves, and the poorest shanty-dwellers in the capital's wretched slums.

Theft and pilferage account for half of the capital's alarmingly high transmission and distribution losses — at 4 per cent these losses are almost double the national average of 2 per cent and considerably higher than the international average.

Returning home one recent Sunday evening after raiding a middle-class residential colony in west Delhi, Mr Bagchi admits dejectedly that his is an impossible mission. He is prepared to work 14-hour days and sacrifice his weekends, but he knows he is barely scratching the surface of this endemic social problem. His enforcement team of 100, of which only 30 are senior officers, is ill-equipped to take on a city of nearly 14m people who have no compunctions about cheating the system, evading taxes, or shirking social responsibility.

Delhi's ailing electricity board collects dues for only 40 per cent of the power it distributes. Official figures

show losses of Rs12bn a year due to faulty transmission and theft, but a private study done last year by Intra Eff., a Geneva-based company specialising in technologies to reduce power losses, estimates DVB's commercial losses are much higher, perhaps Rs20bn.

Delhi's citizens love to complain about the inefficiencies of their electricity supplier, and with good reason. The loss-making utility, like many others in the country, is notorious for its erratic power supply. Consumers suffer longer hours of power cuts during each scorching summer. But they only make matters worse by using larger loads than have been sanctioned and paid for, by tampering with electricity meters — or bypassing them by hooking on directly to an electric pole — or just refusing to settle their bills.

Delhi testers on the brink of a power crisis. The central government's ministry of power has assessed that there will be a shortfall of nearly 1,000MW by the summer, with peak demand estimated at 2,700MW. The city's outdated transmission and distribution network produces 300MW, and can import only up to 1,400MW of power from neighbouring states. The quality of power is also unsatisfactory, with the network invariably tripping with the burden of illegal loads, and blackouts that could last for days.

Two months ago the power minister, P.R. Kumaraswamy, warned Sheila Dixit, Delhi's chief minister, that the capital would face a "severe power crisis" unless "drastic remedial measures" were taken.

Virendra Singh, DVB's chairman, blames the city's unbridled and unplanned growth, and its growing population. A consumer boom since 1981, which has made air conditioning more common, and the mushrooming

of small businesses in residential areas, have exacerbated the shortages.

A big obstacle in DVB's war against theft is that some of its staff is involved with dishonest consumers. "Without their help consumers could not cheat us with such impunity," says Mr Bagchi. There are widespread complaints about DVB line-men demanding bribes or threatening to cut off electricity. "We are trying our best to stem the rot within," he says.

The former intelligence officer has met with some success. Since he took over in May 1998, the number of raids has risen from 14,010 in 1997-98 to 17,520 for the first 10 months of the current financial year. The total number of thefts detected has increased marginally, from 5,884 to 6,316 cases, but the value of the thefts detected has risen this year, to Rs232.8m for 75,123MW stolen from Rs220.4m for 46,488MW last year.

Mr Bagchi has little time for the common perception that slums and unauthorised dwellings account for most thefts. "On the contrary, the real defaulters are the big businessmen, and we have to catch them and lock them up," he says. Small factories and Delhi's export houses thrive on stolen electricity and think nothing of digging up underground cables to gain an illicit supply.

"The richer the colonies, the more they steal," says Ram Singh, a former DVB line-man who admits that he often succumbed to the temptation of tampering with meters for a bribe before he retired last year.

"The only way we can stop this is by enlisting the help of local organisations and individuals and changing people's attitudes," says Mr Bagchi. For now, Delhi residents would rather enjoy free electricity than pay for an uninterrupted supply.

ROADS by Shiraz Sidhva

Travelling without a ticket

Chronically choked — and dangerous — highways face little prospect of improvement until funding is found

Prime Minister Atal Behari Vajpayee has a dream for India. It fits in well with his party's nationalistic agenda, strengthening the links between the diverse states that make up one great united nation. He plans to connect the four corners of the Indian sub-continent with 7,000 kilometres of six-lane highways and expressways by 2010.

The Rs280bn project is part of the ambitious National Highways Development Policy announced by Mr Vajpayee last October. It envisages a north-south corridor linking Kashmir in the north to Kanyakumari in the south, and an east-west corridor from Saurashtra in the west to Silchar in the east. It also incorporates a network of 6,000 kilometres of four-lane highways linking the main cities of Delhi, Bombay, Madras and Calcutta.

The highways project is a blueprint for growth, but two looming roadblocks — a lack of funding, and the absence of a legal and technical framework to ensure speedy implementation of the project — threaten to bring it to a standstill.

"The government has to figure out how to increase resources, first and foremost," says Anil Bhandari, the World Bank's transport specialist in New Delhi. The central minister of surface transport, M. Thambidurai, has announced that by 2020 a network of 13,500 kilometres would be completed, at a cost of Rs1250bn. Where is the money going to come from?

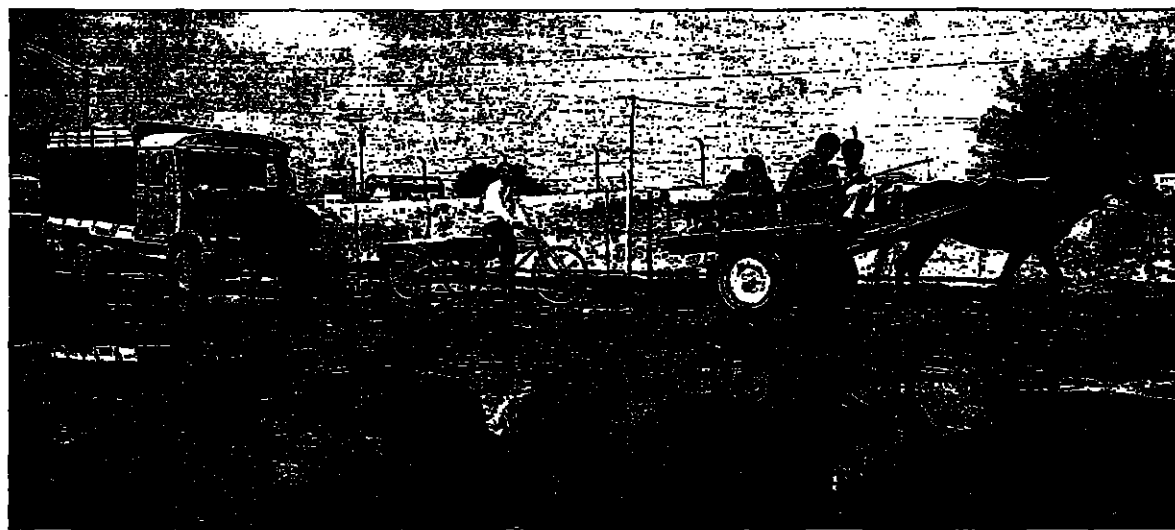
"Budget allocations (Rs120bn in the current fifth plan, for 1997-2002) are inadequate," says Mr Bhandari, "and private sector financing and aid from the World Bank and the Asian Development Bank."

Mr Bhandari says the users must pay. He approves of a proposal from the transport ministry to augment the government's central road fund by setting aside 5 per cent of the basic price of petrol and diesel. The fund currently receives Rs200m from the government through a levy of 3.5 paise per litre of fuel. The money is given to the states in proportion to their fuel consumption, and has to be spent on state road programmes. Funds for national highways come from the central government's consolidated budget; the current allocation covers around 50 per cent of what the ministry asked for.

Recognising that road programmes are impossible to finance through general budgets, the government introduced a levy of Rs1 per litre of petrol last year for highway development. It expects to collect Rs7.9bn for the fiscal year to March 1999. A similar tax is planned on diesel, which would raise collections to Rs25bn, but the government has so far been unable to introduce it.

Foreign investors interested in entering the Indian highways sector are wary that the already long lead-time on road investments would be further prolonged in India, with the consequent risk of cost overruns, compounded by the political and social risks of collecting toll charges. "The government has to improve the decision-making process, which is multi-layered, multi-agency, and time-consuming," says Mr Bhandari.

Long delays in paying contractors are among the hazards of Indian business life, often resulting in expensive litigation and arbitration cases. "There has to be a legal framework in place to protect private investors," says Petr Nexval, director of Pontex, a Czech engineering consultancy examining the



A levy on fuel prices goes to state governments for improvements to roads, which are generally in poor condition

AP

est) is surfaced, and, according to a 1998 World Bank study, only 4 per cent of roads conform to international structural norms.

While freight and passenger traffic has increased 88 and 70 times respectively since 1951, road length has increased only sevenfold. The national highways, which carry 40 per cent of the total traffic, account for only 49,555km, or 1.65 per cent, of the road network.

The growing volume of traffic includes a tremendous variety of vehicles — fast-moving vehicles mix with trucks, rickshaws, bicycles, and even animals. The saturated and over-burdened roads are pot-holed and pulverised, and traffic snarls can stretch to 10 kilometres on some busy stretches.

The costs of poorly-maintained roads to industry are often incalculable. According to one transporter, the cost of moving a container by road from Delhi to Bombay (approximately 1,200km) is 55 per cent of the road and sea freight from Delhi to Hamburg.

A better road network would result in savings up to \$8.5m per year, according to the Delhi-based National Council for Applied Economic Research.

Only 4% of roads conform to international structural norms

highways project. "The build operate and transfer (BOT) process that the government has announced is not a good proposition for foreign companies."

A team of senior bureaucrats from the National Highways Authority of India, an autonomous government organisation which will execute the project, and the ministry of surface transport are currently working to resolve these problems. International consultants have been appointed to draw up the legal documents required,

and ensure that the competitive bidding is transparent.

"Quality control will be strictly monitored by appointing international supervisory firms, and we expect the foreign companies to bring in their latest equipment and technology," says R. Vasudevan, secretary of surface transport. "For our part, we will exempt road-building equipment from taxes, give subsidies of up to 40 per cent, facilitate land acquisition, and ensure that contractors are paid within a week of submitting their bills. We have to provide the BOT operators with sweeteners or private investment will be hard to attract."

Mr Thambidurai says: "This is the largest investment opportunity in the roads sector anywhere in the world."

The government has belatedly addressed one of India's worst infrastructural bottlenecks. India's roads will get a lot worse before they get better. Apart from being a serious drag on the economy, they are also among the world's most dangerous — in 1995 (the latest figures available) more than 70,000 people were killed and 30.7m injured in accidents involving motor vehicles. Only half of the 3.1m-kilometre network (the world's third-larg-

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FIGURES SPEAK PERFORMANCE PEAKS

AUDITED FINANCIAL RESULTS (PROVISIONAL) FOR THE QUARTER ENDED 31.12.98

	Quarter ended 31.12.98 (Audited)	Corresponding Quarter ended 31.12.97 (Unaudited)	9 months ended 31.12.98 (Audited)	Corresponding 9 months ended 31.12.97 (Unaudited)	Accounting year ended 31.03.98 (12 months) (Audited)
1. Income from Operations	134.37	101.54	286.15	217.14	260.14
2. Other Income	0.37	.00087	2.02	.0026	5.08
3. Total Expenditure	1.16	1.68	17.83	6.08	22.84
4. Interest	37.74	27.33	106.15	78.02	108.02
5. Gross Profit(+) / Loss(-) After interest but before Depreciation and Taxation (1+2-3-4)	95.84	72.53	164.19	133.04	134.36
6. Depreciation	2.36	2.36	7.09	7.09	9.47
7. Add Excess Provision of Income Tax Written Back	-0.35	1.34	-0.35	1.34	6.61
8. Add (+) / Loss(-) Prior-Period Adjustments	-0.0042	-0.0055	-0.0041	-0.018	0.11
9. Provision for Taxation	4.75	2.96	20.12	7.70	8.14
10. Net Profit (+) / Loss (-)	88.38	68.55	136.63	119.57	123.47
11. Paid-up Equity Share Capital	241.10	241.10	241.10	241.10	241.10
12. Reserves Excluding Revaluation Reserves					339.23

Note:
1. Provision for taxation has been considered on pro-rata basis, taking into account gross anticipated income.
2. The above financial results were taken on record by the Board of Directors on 29th January, 1999.
3. The financial results have been converted into US Dollars taking US \$1=Rs. 42.74 as prevailing.

New Delhi

Date: 29th January, 1999

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Thursday April 29

FINANCIAL TIMES

PRIVATISATION OF THE PORTS by Kunal Bose in Calcutta

Capacity and efficiency all at sea

Heavy congestion and long turn-around times need to be addressed in order to deal with rapidly-growing volumes

Cargo traffic at India's ports is expected to grow rapidly in the next few years, but there are concerns over the ports' ability to handle this trade given their existing capacity and inefficiency. Rites, a federal government-owned consultant, has forecast that traffic totalling 251m tonnes last year will grow to 415m tonnes by 2002 and 1,273m tonnes by 2020. But some shippers say there will be a shortfall in handling capacity of nearly 90m tonnes at India's leading 11 ports - owned by the federal government - by 2002.

Heavy congestion, berthing delays, and long

ship turn-around time are common features of Indian ports. The turn-around time of a ship at Cochin, rated one of the country's more efficient ports, is over four days; the situation is worse elsewhere.

The 11 main ports handle 90 per cent of India's cargo traffic, with the balance going to the 139 intermediate and minor ports under the control of state governments.

Shippers are not expecting port congestion to ease significantly in the near future, but what gives them hope is the speed with which the federal government is throwing open port develop-

ment to the private sector.

The private sector is being asked to bear in mind long-term growth of traffic when building all-weather ports capable of handling large ocean-going vessels and take on lease assets of the existing main ports or create new assets there. The guidelines for private sector participation on build, own, operate and transfer basis provides for a concession period of 30 years.

The western Indian state of Gujarat, which is setting the pace for port privatisation, is allowing two large expansions of a port built by a private party during the concession period.

Gujarat Pipavav (GP) currently has capacity of 12m tonnes a year and is to be expanded in phases to 50m tonnes by 2008. "We have so

far invested Rs3.5bn in building an all-weather, deep-water sea port," says the port's president, KP Vohra. "As we increase the port's cargo handling capacity to 50m tonnes, a further investment of Rs15bn is to be made. The port, designed to handle both solid and liquid cargo, will finally be able to receive ships of 120,000dwt."

Gujarat Maritime Board, a state government body, owns 26 per cent of GP. Mr Vohra says it is allowing Soeking Engineers, the private promoter, to manage the port affairs without "undue interference".

"Work at the port started in earnest in mid-1994 and the jetty was commissioned in November 1996," says Mr Vohra. "While the success of the port is underpinned by its excellent maritime fea-

tures, the state government wants to project it as the model port when private parties come forward to bid for the 10 other identified sites."

The federal government's guidelines for private sector involvement in the expansion of the existing 11 main ports say such "participation would result in reducing the gestation period for setting up new facilities, help bring in the latest technology, and lead to improved management practices."

Describing port privatisation as an offshoot of the general liberalisation of economic policies, the government says the initiative is required to mobilise "substantial resources" needed for port capacity expansion and usher in "efficiency, productivity and competitiveness in port services".

The guidelines have identified several areas for private sector participation: construction and operation of container terminals, cargo berths, warehouses, container freight stations, tank farms, dry docking, and ship repair facilities. The main ports will have freedom to take on lease equipment and floating crafts from the private sector.

SK Mohapatra, chairman of Paradip Port, says "a major port like ours will go for privatisation if it cannot fund expansion or modernisation. Privatisation will also be triggered if it is felt that a private operator will lift efficiency. Ours is a profit-earning port. Still, we have given two berths to private parties for captive use. I think there will be more efficiency if we

privatise our coal-handling."

Some of the privatisation programmes of leading ports are so capital and technology intensive that the local operators can bid for them only in association with foreign companies. JNPT, in Bombay, will be inviting bids for the construction and operation of a marine chemical terminal with initial capacity of 15m tonnes a year, rising to 25m tonnes. The investment needed is around \$800m, and the port will entertain bids only from "established international terminal operators".

The private sector has shown little interest in taking on leases of the existing assets of the main ports. The stumbling block is overmanaging government policy provides for the port authorities to decide the labour complement that a private operator must accept when it takes an asset on lease.

The Major Port Trusts Act allows the ports themselves

to take on the role of a regulator. The government has, however, promised that for the "purpose of fixing and revising port tariffs an independent tariff regulatory authority will be set up".

Private investors will feel comfortable if there is an independent regulator. There will always be scope for conflict between a port and private operators. "The risk involved in building and operating a new port is many times more than owning a facility in an existing port," says Atanu Chakravarty, chief executive of Gujarat Infrastructure Development Board.

"We do not have any experience of the private sector running ports. Investment in a port is of a long-term nature. It was a big challenge for us to formulate a port policy which will give comfort to private investors. We must not be seen to be giving away more than necessary."

URBAN FACILITIES by Mark Nicholson

Basic services are a daunting task

Current planned government expenditure on repair, renovation and extension for the next decade is just 10% of estimated need

Within a couple of years, one-third of Indians will live in cities - as many people as comprised the country's entire population at the dawn of independence 51 years ago, when only 10 per cent lived in main cities.

Urban population growth between 1981-91, the last time it was measured accurately, was 3.1 per cent, against 1.8 per cent in India's 660,000-plus villages. Wealth discrepancies between city and country are, meanwhile, rising fast.

More than half of urban Indians live without any form of sewerage system - only 200 of India's 3,600 biggest cities have sewerage systems at all. Nearly one-third of city dwellers do not even have toilets or latrines. About the same number have no refuse collection services, and 16 per cent of city-dwellers have no water supplies. Where such services

do exist, moreover, they are under-funded, inefficient, often insanitary, and chronically ailing. Two-fifths of Delhi's urban water supply, for instance, goes "missing" through leakage and other inefficiencies.

Small wonder, then, that a top official with a leading international finance institution describes the challenge of addressing urban infrastructure simply as "daunting". In fact, until recently the World Bank had more or less disengaged from urban infrastructure projects. Furthermore, while foreign and private investors are beginning to show interest in urban water, sewerage and waste projects, the regulatory, bureaucratic, political and financial environments for such investments are, if anything, less promising than the already thorny sectors of power, telecoms, roads or ports.

The required investment is huge. "You have a quite colossal need for investment," says V. Suresh, the energetic chairman and managing director of the government Housing and Urban Development Corporation, which for 10 years has been leading the state investment effort. He says the estimated need for investment to repair, renovate, and extend current urban infrastructure over the next decade is \$65bn, of which currently planned government expenditure for the sector would meet only one-tenth.

So far, much of the foreign and private investment interest has focused on provision of water and sanitation. Companies such as Anglian Water, the UK utility that has established a fully-owned subsidiary in Bangalore, and Vivendi, the French water utility, are either engaged in, or examining, prospects for water and sanitation projects in the main cities.

Among these, Pune municipal council is trying to put together a \$187m water and sewerage project. Bangalore has plans for a 500m-litre-a-day water supply project, and Madras is looking to almost double urban water supplies - in each case the municipalities are seeking private investment in partnership with the local authorities.

The hurdles are manifold, as the private sector developers are discovering. These include problems of financing, regulation, and management.

For water projects, the problems of financing resemble those already encountered in private power projects, but are more acute. Indian consumers are used to receiving water at tariffs well below cost recovery rates, and there is stiff political resistance to allowing water tariffs to rise. But with water and sanitation projects financed on a non-recourse basis - that is, without financing secured

against assets but only against cash-flows generated by the project itself - the viability of any water project relies on the developers' ability to charge remunerative tariffs.

Related to this is the issue of regulation, of which there is little in the water sector. In most cases, state governments set broad guidelines for water tariffs but leave it to municipal authorities to implement water supplies and organise distribution and billing. This, in turn, raises the question of management, since most municipal authorities offer limited expertise or incentive within their administrations to organise and police efficiently anything resembling a commercially viable water distribution system.

There is a limited willingness to pay among consumers, little political will to make them pay, and no effective regulatory system to police the sector, set standards, or hold local urban authorities accountable.



Precarious water: 16% of city-dwellers have no direct supplies AP

For this, and other reasons, many developers are questioning the viability of big BOT or BOO water projects, which require huge initial investments but rely on tight and commercial distribution systems. Moreover, investors are increasingly discovering the complexity simply of preparing a bid for such projects. Mr Suresh points out that it took more than two years of study and preparation by bidders to the

Pune water project - only for the local government to decide at the last minute that it wanted the whole process retendered.

In addition, some investors believe that the whole concept of most tenders is misplaced, and that tender documents place too much emphasis on engineering practicalities rather than financial concepts. Given the inexperience of the tendering municipalities, global

water companies are frustrated by the imprecision of the tender documents.

The chairman of one European water company recently complained that his group had been invited to bid for "one sewerage system, complete item" for a south Indian city and was given a six-year-old street map of the city as the basis to prepare the bid. In the event, he says, his competitor entered a bid which included fully 200km more sewerage tunnelling than his own.

Nevertheless, the lessons of such experiences are being learned. Having also learned from the difficulties faced by foreign contractors entering India's power, telecoms, ports, and roads sectors, government agencies increasingly recognise what needs to be achieved to attract investment into urban infrastructure. There is, for example, an increasing recognition among officials of the need for effective regulatory authorities to oversee water and sanitation. Andhra Pradesh state has already begun work towards establishing such an agency.



Developing a framework for private investment in infrastructure in India

Created to lead private capital to commercially viable infrastructure projects, IDFC is helping to create the framework for investments in India's key infrastructure sectors.

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The Investors' key to India



While India's solid fundamentals form reassuring characteristics in the current economic environment, IDBI plays a key role in India's industrial transformation through its innovative policies and operations and its nationwide network. With the emergence of infrastructure development as a deterministic influence on the overall industrial growth of the Indian economy, infrastructure finance has also become the thrust area of IDBI's business for the future.

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BOOKS

FEBRUARY 26 1999

QUARTERLY GUIDE

In this issue

Employment policy • Economic statistics and forecasts • Foreign exchange and bond markets • Euro-zone 11 - statistics and analysis • Taxation • Motor industry • Monetary unions. **Next issue: May 28 1999**

History officers: A pertinent lesson

By David H. Burton

MOTOR INDUSTRY by Hagl Simonian

A market facing up to pricing reality

The car industry in Europe is going through one of the most intense periods of restructuring in its recent history, and this year's introduction of the euro seems certain to be one of the driving forces that will see the process continue.

Spiralling costs, static demand, and rising competition have been behind the moves which have brought BMW, Volkswagen, and Renault to the forefront of the industry. With the aid of the new DMW (German Mark) and the light hand drive, or UK as a result of its difficulties with its Rover subsidiary in the UK.

The new pressure that is now arising, however, comes from the pricing transparency across previously separate national markets which is being brought about as a result of economic and monetary union.

While a single market makes such practices as consumer growth more sensitive to the pricing of cars, greater price transparency will highlight the apparent anomalies in pricing, thrown into the sharpest relief when local sales taxes are excluded.

Generally speaking, European carmakers tend to price their cars relatively cheaply in countries such as Denmark, where sales taxes on new cars are highest. That tends to level out price differences, including tax in the EU.

But for many buyers willing to take on the relatively easy task of handling the local bureaucracy, buying a foreign car for export, and the free of local taxes, can be rewarding, even once the appropriate sales taxes are added at home.

The advent of the common currency should accelerate that process, which may be further facilitated by growing use of the Internet to gain information and arbitrage prices.

Already, there are a signs of change. First buyers, the most professional operators in the car market, are seeking out the best value for their money. They are buying cars from the UK, where the car purchasing costs are lower, and then selling them in other parts of Europe.

Another three or five years, and the car market could be predicted.

Carmakers have already received an intimation of the

risks ahead. Last year, Volkswagen, Europe's biggest carmaker, was fined £100m by the European Commission for allegedly anti-competitive behaviour. According to the charges, which are being contested, VW discouraged dealers in Austria from selling vehicles to Italian customers.

The enterprising Italians had noted they could buy VWs more cheaply in Austria than at home because of the lower sales tax. With the aid of the new DMW (German Mark) and the light hand drive, or UK as a result of its difficulties with its Rover subsidiary in the UK.

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EUROPEAN ECONOMY 14



Jacques A. Haer (left), Jean-Jacques Van der Veken (center), and Jürgen Schmeppe (right), members of the European Commission, are seen here in response to pressure from the automotive industry to increase transparency in new car sales.

However, the speed of change - and its likely impact on car companies - should not be exaggerated. Before any really significant rise in consumer arbitrage, Europe's system of selling vehicles will probably have to be changed.

The current method, called block exemption, gives vehicle makers immense power over their independent dealers. It looks set to be abolished when it comes the opportunity to shop around more aggressively.

The removal of the current rules will also encourage the creation of independent brokers, ready to help motorists buy new cars more cheaply.

Only then will the full impact of the single currency be felt fully by the motor industry. The likely impact will be to reinforce existing competitive and financial pressures, increasing the chances of further concentration.

TAXATION by Emma Tucker in Brussels

Lack of co-ordination a bar to further integration

The arrival of the euro has blown the covers off the debate about tax harmonisation in Europe. Long the European Union's most taboo subject, government leaders are now openly addressing the need for greater fiscal harmonisation.

To the horror of the UK and other sovereignty conscious nations, France and Germany are calling for an across the board review of the many tax distortions and differences that plague the European single market.

Even the limited taxation proposals currently on the table are likely to face a roadblock. The measure is being opposed by a group of countries, including France, Germany, and the UK, who are concerned about the impact of the new tax system on their own economies.

The package, drawn up by the Commission, is a far cry from the harmonisation of tax rates across the EU. It is a first step, but it is a long way from the harmonisation of tax rates across the EU.

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Second, a legislative proposal for a minimum 20 per cent withholding tax on income from the savings and investments of non-residents. At the moment 11 of the EU's 12 member states do not tax interest on the savings of individuals based in other member states - a policy that attracts capital. However, it also means that member states lose out on valuable revenues.

EMPLOYMENT POLICY by Robert Taylor

EU has eye on bridging gap with competitors

The arrival of the euro is accelerating efforts to try to bridge the gap between the EU and its competitors. The new currency is seen as a key to the success of the EU's economic and social policies.

Contrary to conventional wisdom, the EU's labour market has not always been sclerotic. In employment levels, the EU is ahead of most other major economies. The EU's labour market is more flexible than that of the US and Japan. But the EU's labour market is not as competitive as that of the US and Japan.

The task facing Mr. Larson and his colleagues in the Commission is to improve the EU's labour market. The Commission is working to improve the EU's labour market by increasing the number of people working in the EU. The Commission is working to improve the EU's labour market by increasing the number of people working in the EU.

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EMPLOYMENT PATTERNS by Ron Martin and Peter Tyler

No panacea for market weaknesses

From the outset of monetary union there has been a rather optimistic view that a unified monetary union would lead to a more competitive and dynamic economy. The reality, however, is that the EU's economy is still plagued by many weaknesses.

The EU's economy is still plagued by many weaknesses. The EU's economy is still plagued by many weaknesses. The EU's economy is still plagued by many weaknesses.

There are very real economic gains to be made from the EU's economy. The EU's economy is still plagued by many weaknesses. The EU's economy is still plagued by many weaknesses. The EU's economy is still plagued by many weaknesses.

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However, very few commentators doubt that there are gains to be made from the EU's economy. The EU's economy is still plagued by many weaknesses. The EU's economy is still plagued by many weaknesses. The EU's economy is still plagued by many weaknesses.

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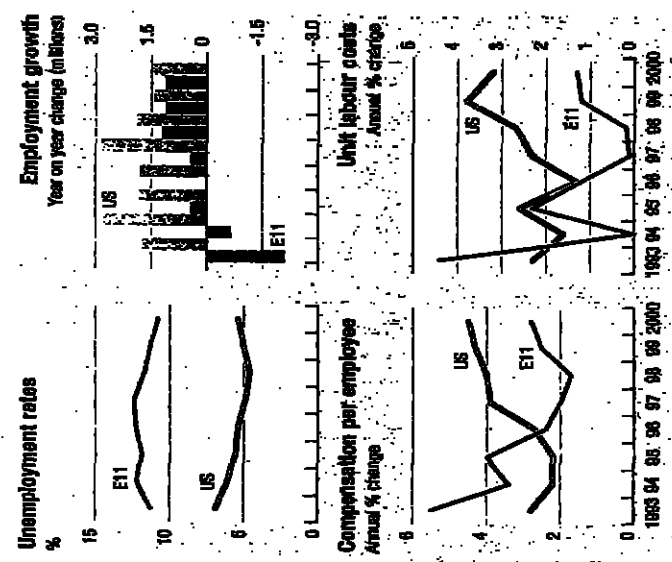
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There, one period's high unemployment rate is adjusted to the next period's high unemployment rate. The EU's economy is still plagued by many weaknesses. The EU's economy is still plagued by many weaknesses. The EU's economy is still plagued by many weaknesses.

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EUROPEAN ECONOMY 3



whether it can survive the uncertainties of the global economy and financial markets is another matter. The EU has made commitment to encourage growth in part-time as well as full-time employment.

The third pillar involves a greater commitment to workplace adaptability. As Mr. Larson argues, the EU's economic strategy of stability and growth. It seems to have won the approval of European governments that dominate the EU's economy.

opportunities involves the encouragement of policies designed to reconcile family and working life with a commitment to encourage growth in part-time as well as full-time employment.

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second world war period suggests that the economic effects which arise from greater European integration, of which monetary union is the latest phase, cannot be left simply to trickle down as a result of market forces to those citizens who are in Europe's periphery. On grounds of both equity and efficiency more needs to be done by both individual member states and the European Union as a whole to assist the peripheral regions in their integration process.

Regional unemployment disparities have been persistent' economically dynamic regions. European regional labour markets are going to take time to adjust to the competition for jobs. The EU's economic strategy of stability and growth. It seems to have won the approval of European governments that dominate the EU's economy.

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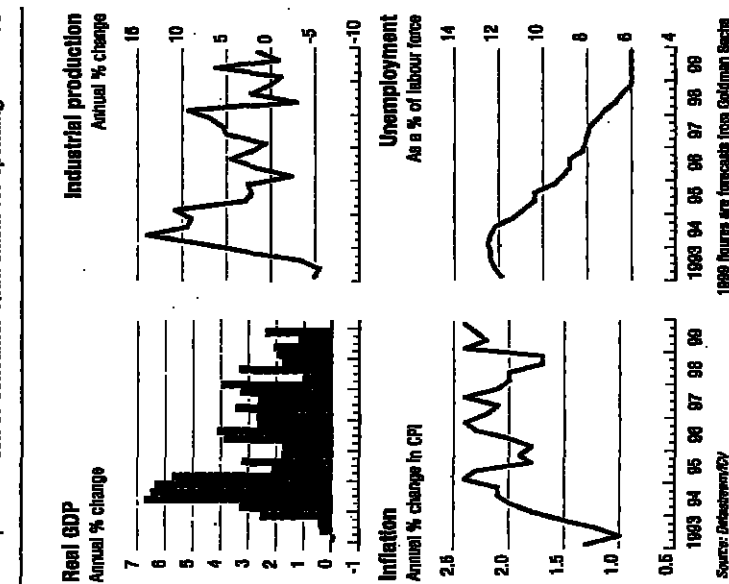
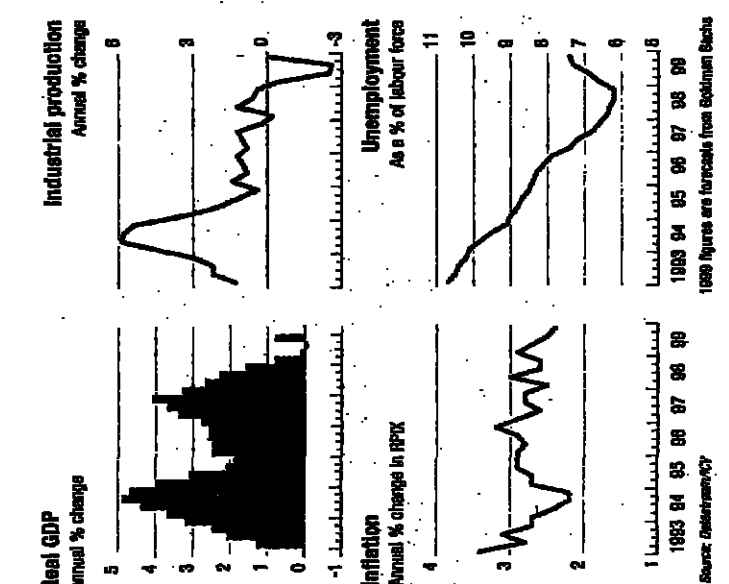
Corporate Finance - January '99
Top Bank of the Year
Investment Bank of the Year
Equity-Linked House of the Year
Corporate Finance - December '98
Deals of the Year
Equity-Linked Offering of the Year - Swiss Life GENAMS
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Syndicated Loan of the Year - GEC
Buyout of the Year - Investcorp/Walmouths - BPC
EuroMoney - January '99
Overall Winner of the Poll of Polls
- No. 1 Underwriting
- No. 1 Advisory
EuroMoney - February '99
Deals of the Year
Best International Euro Issue - Republic of Italy
Best Equity-Linked Issue - Bell Atlantic (CWC)
Best High Grade Corporate Issue - KPN
Best IPO - Swisscom
Best Financial Institution Issue - Associates Corporation of North America
Best International Syndicated Loan - GEC

EuroWeek - January '99
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Warburg Dillon Read, named "Investment Bank of the Year," Corporate Finance, January 1999.

Warburg Dillon Read

An investment bank of global intelligence



Another concern. The decline in exports seen last year is expected to extend into 1999, keeping the current account in deficit until at least 2000. The government expects the deficit to hit Dkr6.6bn (€870m) in 1999 before narrowing to Dkr2bn next year. However, there are some sunny points. Inflation is modest with the consumer price index running at 1.7 per cent and will remain benign and well under 2.5 per cent for the next two years. Similarly, the unemployment rate, in double-digits only six years ago, has eased to just 6.1 per cent.

Recession hovers in the wings

UK by Richard Adams in London

UK economic growth continued to slow towards the end of last year - to the point where it was just below the long-term average. The last recession, which began in 1980, was followed by a period of steady growth. But it wasn't until the late 1980s that the economy began to show signs of slowing down. Analysts are now warning that a recession is likely to hit the UK in the next few years.

formed as poorly as predicted by many of the peakists. Its performance has been underpinned by the strength of the services sector. But the UK's trade deficit is likely to widen significantly before any improvement is seen. Many predictions of a slowdown were based around the very weak levels of consumer spending during the second half of 1998.

Recent surveys suggest that the slight easing of the pound's strength has helped to improve sentiment in the export sector. But the UK's trade deficit is likely to widen significantly before any improvement is seen. Many predictions of a slowdown were based around the very weak levels of consumer spending during the second half of 1998.

Pace-setter shows signs of tiredness

DENMARK by Clare McCarthy in Copenhagen

Economists give Denmark a thumbs up, though it will pick up a pace in 1999. The country's economic growth has been strong, but there are signs of tiredness. The government is expected to implement a package of measures to boost growth, including a reduction in the value-added tax and a new mortgage interest deduction.

GDP will slump to 1 per cent this year, though it will pick up a pace in 1999. The country's economic growth has been strong, but there are signs of tiredness. The government is expected to implement a package of measures to boost growth, including a reduction in the value-added tax and a new mortgage interest deduction.

Market economists are rather gloomier about the immediate term and Daneske Bank, Denmark's largest lender, predicts that

Three-year effort gives smooth start

CASE STUDY BANCO BILBAO VIZCAYA

There were a few cases of corporate bonds being wrongly converted, with the BBV being one of the biggest. To handle the new pricing system was put to the test rather more than in the past. After all, it had been a long time since the bank had been involved in such a large-scale operation.

Ability of brokers to handle new pricing system put to the test

about Plat2bn (£72m).

Adapting to the euro meant changing 35,000 computer programs. All the group's 24,000 employees in Spain went through training in the new pricing system. The bank had been preparing for the euro for three years, an effort reckoned to have cost it

David White

branch in the yuppie Madrid suburb of Majadahonda had a pilot working day on Sunday, January 3, with staff acting as clients carrying out virtual euro operations.

Branches trading in euros began from January 4, in a period when flow business could usually be expected

INTRODUCTION by Wolfgang Münchau in Frankfurt

Financial markets biggest beneficiary of euro so far

Whether the expectations to the contrary, monetary union is about political power, and will not prove to be a panacea for Europe's economic problems

The launch of the euro on January 1 counts as one of the key milestones in the history of European integration. It marks the beginning of the single European market, the single European currency, and the single European monetary policy. It is a historic moment, and it is one that will be remembered for generations to come.

While most of the attention has focused on the euro itself, economic and monetary union has also brought about an entirely new economy, the euro-zone. Like the euro itself, the euro-zone is more than just the sum of its constituent parts. It is an economic entity in its own right, with its own economic statistics and distinct economic characteristics. Individual members of the euro-zone no longer exist as relevant macroeconomic units. Their governments have relinquished the right to print money.

Economic and monetary union is primarily a political project. At its deep core, it is not about money but about power. As a political project, it has a clear goal: to establish a new political and economic order in Europe. It is a project that is being pursued by the member states of the euro-zone, and it is a project that is being pursued by the European Commission.

Not all will solve Europe's economic problems by itself. Europe will still suffer from high unemployment, and Europe's large and persistent current account surplus will not disappear overnight. The euro will not solve all of Europe's economic problems, but it will solve some of them.

Whether Europe succeeds as a political project will depend on the willingness of its member states to support it. It will depend on the willingness of its member states to support the euro, and it will depend on the willingness of its member states to support the European Commission.

Editor: Nicholas Leake
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The euro arrived with a bang on international financial markets. AP

London's money market establishment with the news that the euro, the new money market benchmark interest rate set up by a group of banks in the euro-zone, has proved more popular than London's three-month interest rate as the benchmark rate for the euro-zone. The success of the euro in the international financial markets contrasts sharply with the continued problems in the euro-zone, and the uncertain outlook for the euro-zone.

Unemployment in the euro-zone is running at over 11 per cent, while inflation was down to 0.8 per cent in December, the lowest level since the start of the euro. The euro-zone is still a long way from achieving the goals set by the Maastricht Treaty, and the euro-zone is still a long way from becoming a true single market.

Another source of concern is the exchange rate policy for the euro. The euro is still a long way from becoming a true single currency, and the euro is still a long way from becoming a true single market. The euro is still a long way from becoming a true single currency, and the euro is still a long way from becoming a true single market.

MONEY UNIONS by Luca Einaudi

History offers a pertinent lesson

The difficult relationship between national and monetary union is not a new problem. It is a problem that has been around for centuries, and it is a problem that is still around today.

Money has always had a strong political character. It has been used by governments to control the economy, and it has been used by governments to control the population. Money has always been a tool of power, and it has always been a tool of control.

One of the main problems of the 18th century monetary union was that it was not a true single market. It was a union of separate markets, and it was a union of separate currencies. It was a union of separate markets, and it was a union of separate currencies.

Various techniques were developed in the 18th century to control the money market. These techniques included the use of interest rates, the use of taxes, and the use of subsidies. These techniques were used to control the money market, and they were used to control the population.

The Latin Monetary Union (1865-1928), formed by France, Italy, Belgium, Switzerland, and Greece, was a very flexible system. It was a system that allowed for the exchange of currencies, and it was a system that allowed for the exchange of goods and services.

Income tax has never been used as a means of controlling the money market. It has been used as a means of controlling the population, and it has been used as a means of controlling the economy. Income tax has never been used as a means of controlling the money market.

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It was decided centrally. A site in Latin America and the Caribbean. The French government has been accused of using the population to control the economy, and the French government has been accused of using the population to control the population.

After Bismarck chose to complete the German political unification in 1870-71 with a national war against France, further discussion about a European monetary union was excluded from the agenda. The German government was not interested in a European monetary union, and the French government was not interested in a European monetary union.

The LAMU was meant to work permanently. It was a system that allowed for the exchange of currencies, and it was a system that allowed for the exchange of goods and services. The LAMU was meant to work permanently, and it was a system that allowed for the exchange of currencies.

When appropriate national symbols did not exist, they were created. The French government created the franc, and the German government created the mark. These symbols were created to represent the French government and the German government.

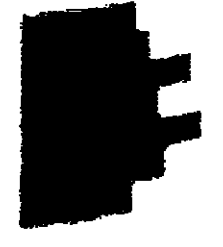
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still remain
Exemplary.
but concerns



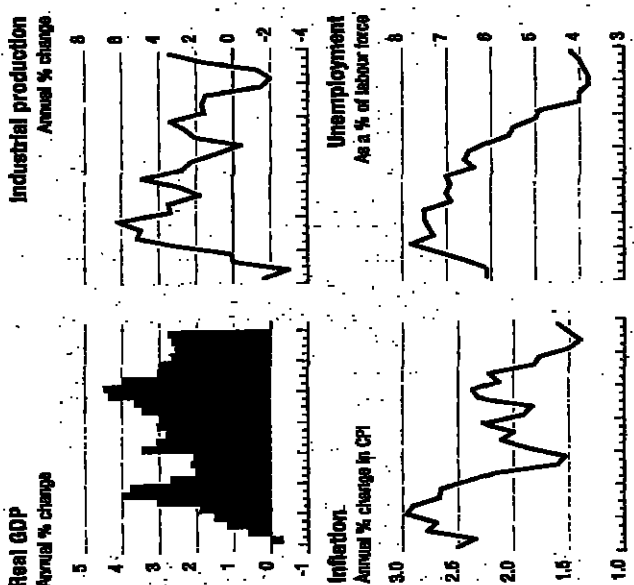
EUROPEAN ECONOMY 10

EUROPEAN ECONOMY 10

THE NETHERLANDS by Jeremy Gray

Economy not immune from export shocks

In recent years, the Netherlands has become a model of economic stability. But the country's economy is not immune from export shocks. The Dutch government's latest budget, announced in March, shows a 2.5 per cent increase in public spending, a 1.5 per cent increase in public revenue, and a 1.0 per cent increase in public debt. The Dutch government is also planning to increase the value-added tax (VAT) from 6 per cent to 7 per cent, and to increase the corporate tax rate from 30 per cent to 33 per cent. These measures are intended to reduce the budget deficit, which stood at 1.5 per cent of GDP in 1998.



Source: Statistics Netherlands

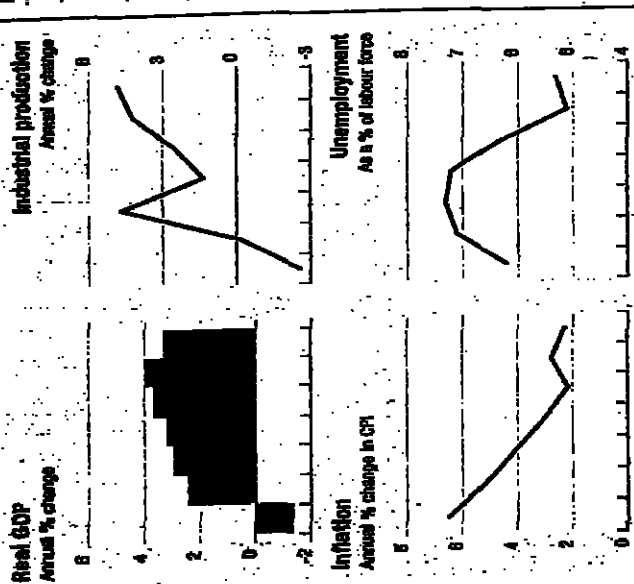
reverse, with GDP slumping to 2 per cent in 1998 before climbing to 3.2 per cent the following year. Although the Dutch economy has been strong, it remains vulnerable to export shocks. The Dutch government's latest budget, announced in March, shows a 2.5 per cent increase in public spending, a 1.5 per cent increase in public revenue, and a 1.0 per cent increase in public debt. The Dutch government is also planning to increase the value-added tax (VAT) from 6 per cent to 7 per cent, and to increase the corporate tax rate from 30 per cent to 33 per cent. These measures are intended to reduce the budget deficit, which stood at 1.5 per cent of GDP in 1998.

However, this model of economic stability is not immune from export shocks. The Dutch government's latest budget, announced in March, shows a 2.5 per cent increase in public spending, a 1.5 per cent increase in public revenue, and a 1.0 per cent increase in public debt. The Dutch government is also planning to increase the value-added tax (VAT) from 6 per cent to 7 per cent, and to increase the corporate tax rate from 30 per cent to 33 per cent. These measures are intended to reduce the budget deficit, which stood at 1.5 per cent of GDP in 1998.

PORTUGAL by Peter Wise in Lisbon

Inflationary pace forced by election

A 3 per cent pay rise for the public sector workers, approved by the Socialist government in January, reflects two of the key issues that are likely to influence the Portuguese economy in the election. The Socialist government is also planning to increase the value-added tax (VAT) from 10 per cent to 12 per cent, and to increase the corporate tax rate from 25 per cent to 28 per cent. These measures are intended to reduce the budget deficit, which stood at 2.5 per cent of GDP in 1998.



Source: Statistics Portugal

observers with the determination that it brought to discrediting public finances and securing its participation in the economic and monetary union. But after seven years of uninterrupted economic growth, Portugal is now facing a global slowdown. The Portuguese government's latest budget, announced in March, shows a 2.5 per cent increase in public spending, a 1.5 per cent increase in public revenue, and a 1.0 per cent increase in public debt. The Portuguese government is also planning to increase the value-added tax (VAT) from 10 per cent to 12 per cent, and to increase the corporate tax rate from 25 per cent to 28 per cent. These measures are intended to reduce the budget deficit, which stood at 2.5 per cent of GDP in 1998.

Some analysts believe the country should be moving more quickly towards a zero deficit. But the government's prudence may be advisable as the convergence of interest rates in the euro-zone, the winding down of the privatisation programme and a deceleration in economic growth - from above 4 per cent last year to below 3.5 per cent in 1998, left Portugal's capacity for sustained fiscal discipline.

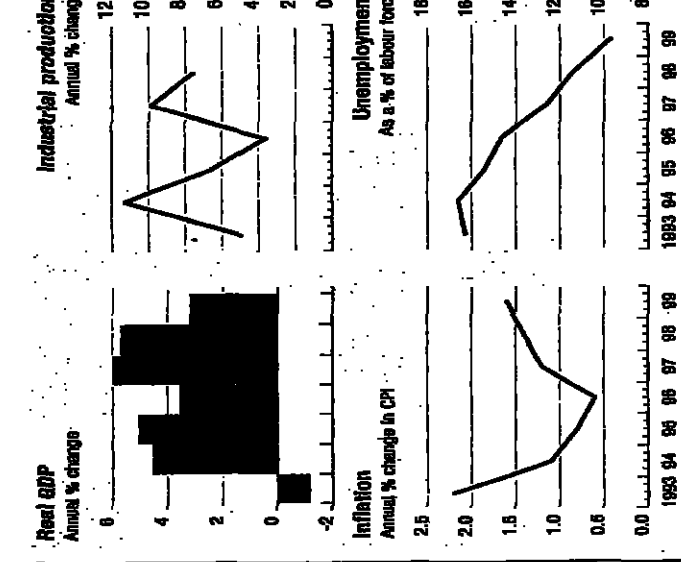


Unemployment remains high - and a soup kitchen is a result

FINLAND by Tim Burt in Helsinki

Slowdown, but turmoil not likely

Finland has emerged as the sole Nordic representative of the euro zone, and has enjoyed clear benefits from becoming a member of the single currency. The Finnish government's latest budget, announced in March, shows a 2.5 per cent increase in public spending, a 1.5 per cent increase in public revenue, and a 1.0 per cent increase in public debt. The Finnish government is also planning to increase the value-added tax (VAT) from 10 per cent to 12 per cent, and to increase the corporate tax rate from 25 per cent to 28 per cent. These measures are intended to reduce the budget deficit, which stood at 2.5 per cent of GDP in 1998.



Source: Statistics Finland

After several years of gross domestic product growth above 4 per cent, some economists are warning that growth could slow dramatically this year to 1.5 per cent, before picking up by 2.5 per cent in 2000. Nevertheless, other indicators point to economic calm rather than turmoil. The general government balance is forecast to show a surplus of 1.1 per cent after years of deficit in 1998, and gross public debt is projected to fall from 51.9 per cent of GDP to 48.5 per cent.

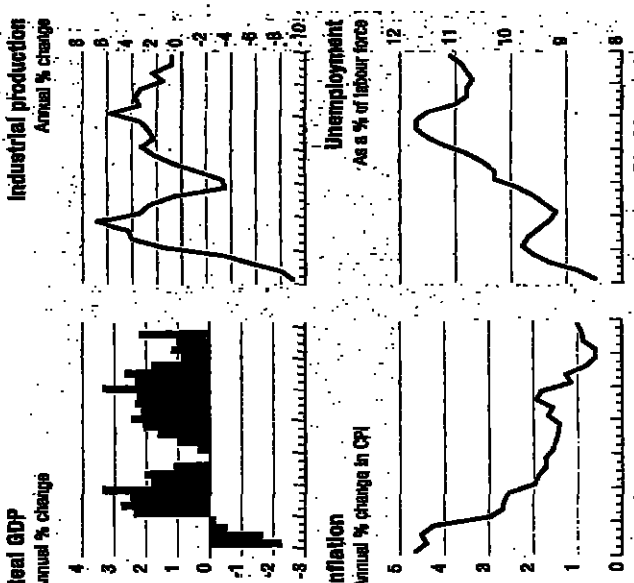
Interest rates are low and consumer demand buoyant. Mr Lippinen, therefore, can take some satisfaction that domestic growth should offset the impact of slowing global demand.

EUROPEAN ECONOMY 7

BELGIUM by Neil Buckley in Brussels

Finances are now well under control

Belgium's new year began well, with budget minister Herman Van Rompuy announcing that its budget deficit hit a record low in 1998, while efforts to lighten its huge debt burden also beat projections. Reflecting the success of Belgium's efforts to bring public finances under control - primarily to ensure qualification for monetary union - the deficit hit 1.3 per cent, down from 1.5 per cent in 1997. The debt fell from 119.9 per cent of GDP to 116.5 per cent, well below the target of 115 per cent. The latest report from the Organisation for Economic Co-operation and Development (OECD) shows that Belgium's public finances are now well under control.

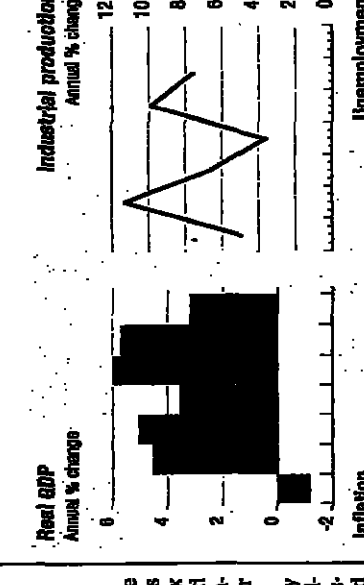


Source: Statistics Belgium

not be at the expense of public investment, which, at only 1.5 per cent of GDP over the past decade, is now among the lowest in the OECD area. The OECD also warned that the EU average of public spending should be improved, with social spending restrained in favour of public investment.

Germany's economic growth shows all the signs of having faltered significantly late last year. The new Social Democratic-led government of Chancellor Gerhard Schröder is resigned to unemployment remaining stubbornly high in the months ahead. That, in turn, has persuaded Oskar Lafontaine, finance minister, to keep the pressure on the European Central Bank for a cut in interest rates. Weak figures for industrial production and inflation from abroad, have led analysts to conclude that Germany's economic growth may have dipped slightly in the last three months of 1998 compared with the previous quarter. Business confidence has also fallen markedly.

The finance ministry hopes the downturn will prove to have been a "growth dip" limited to the winter months. For 1998, the finance ministry is forecasting a growth rate of 2 per cent, compared with the 2.5 per cent achieved last year. The OECD also forecast a 2 per cent growth rate for 1998, but with the risk of a further dip in the first half of 1999. The OECD also warned that the EU average of public spending should be improved, with social spending restrained in favour of public investment.



Source: Statistics Germany

meanwhile, the formerly communist eastern Germany is still failing to catch up with the more prosperous west. With growth last year rising only a little more than 2 per cent, the overall German economic growth since 1990 has been modest. Little promise of significant inward investment has been seen in the country's 4.2m unemployment total.



German workers on the march in demand for jobs

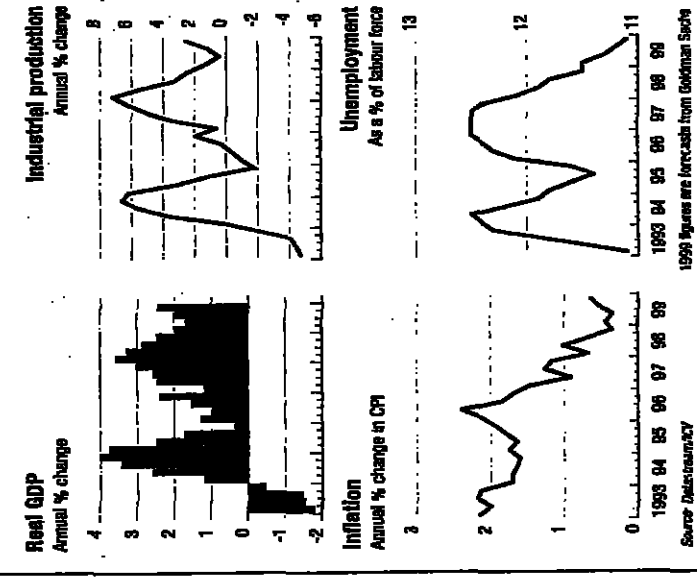
FRANCE by Robert Graham in Paris

Unrealistic look about growth target

France's robust growth in the last quarter of 1998, the strongest since 1994, has led some to believe that the country's economic growth is unstoppable. However, the OECD has warned that the EU average of public spending should be improved, with social spending restrained in favour of public investment.



Construction remains the strongest sector in France



Source: Statistics France

Although French domestic demand is holding up better than that of the other main EU economies, this will be offset by slower-than-expected growth in Germany and Italy. The OECD also warned that the EU average of public spending should be improved, with social spending restrained in favour of public investment.

Business confidence surveys show inventories returning to more normal levels and a clear downgrading of expectations. This less buoyant

Uncertainty behind a tentative start

APRIL 1999

LUXEMBOURG by Neil Buckley

**Exemplary,
but concerns
still remain**

"Until recently, a lot of people were saying that rising yields in European government bonds would lead to asset price inflation in the European economy."

"But recently, a lot of people were saying that rising yields in European government bonds would lead to asset price deflation in the European economy."

Other market participants have been disappointed and frustrated by the volatility of the euro's value. In fact, many are now questioning the structural soundness of the currency.

For example, one analyst at Citicorp says, "The dollar has degraded the dollar as a store of value." Mr. Rosenberg expects the euro to weaken to around \$1.08 against the dollar over the next 12 months from its current level around \$1.12.

But, although preliminary indications are that the euro will displace those who view it as a safe haven, in respect a rapid rise in the new currency, caution is warranted. The demand for the euro remains tepid at the moment. That means that optimists are pessimists will have to wait for their predictions of the euro's nature to be vindicated. For the moment, uncertainty rules.

for the first time. And banks, including Deutsche Bank and Santander, have sought to improve their return on capital with innovative asset-backed offerings secured against future income streams from loan and mortgage repayments. Similarly, investors have cleared up well for the

that the number of corporate ratings in Europe has doubled over the last two years and is set to increase at a similar rate in the next two years.

There is therefore little doubt that Europe's debt markets are taking on the characteristics of the US market. But there are also reasons for believing that growth

Similarly, investors have geared up well for the change. The total amount of

'Debt markets are taking on the characteristics of the US'

capital raised for leveraged

from less than \$10m a year ago, with houses such as Chivenor, Doughty Hanson and Hicks, Moseley leading the way. A number of European asset managers, including Mercury Asset Management and Robert Fleming, have launched dedicated high-yield funds for Europe which have proved popular with investors.

Moody's Investors Service and Standard & Poor's, the credit rating agencies, report

likely to be constrained.

One other possible constraint is the lack of a truly indigenous venture capital industry in continental Europe. In spite of this, however, growth of modest US leveraged funds in the last 18 months, there is still barely any continental European venture capital or leveraged buy-out activity. This also acts as a brake on the rapid development of a European market.

SPAIN by David White in Madrid

out of step

Euro at root of economic confidence

Ireland, as the fastest growing economy in the European Union, is out of step with other members of the single currency. With interest rates at historic lows, some economists are concerned this could lead to excessive spending, and thus to an already booming house-

government has year in as out to reduce the amount of money being invested in the property market. In fact, prices still grew more than 40 per cent in the Dublin area, and to 20 per cent elsewhere in the country.

The most expensive TV commercial slot in Spain's main state network – just before the stroke of midnight on New Year's Eve – was taken this time not by a drinks or car manufacturer but by the finance ministry, promoting the euro.

But Spaniards did not leave winning over. The six-day strike has already played its part in restoring the introduction, strengthening the economic confidence. The imposed discipline of conversation, far from inhibiting, has helped to restore the

Spartan did not need to be w...
Real GDP
Annual % change
4
3
2
1
0

“The government is looking at ways to encourage

[illegible]

Inflation
Annual % change in CPI

Year	Annual % change in CPI
1983	5.0
1984	1.0
1985	3.0
1986	2.0
1987	1.0
1988	2.0
1989	0.0

Source: Zelnitvsky/ICV

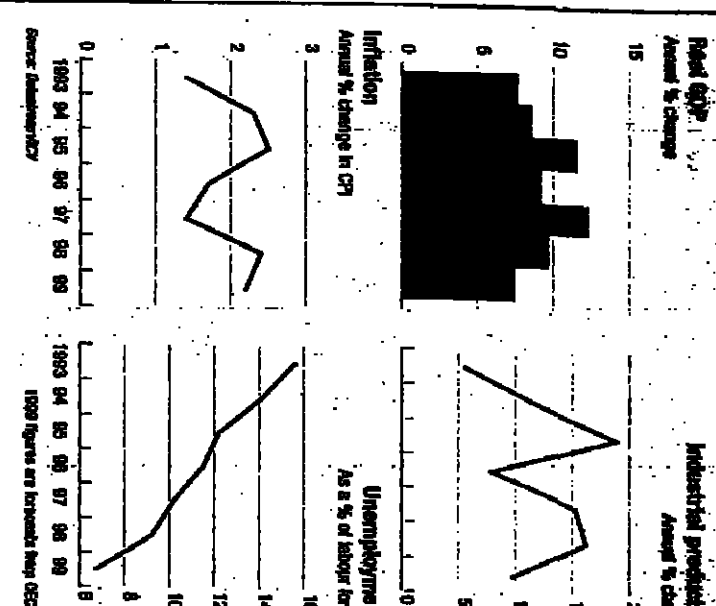
Profit sharing!

With the low 10 per cent corporate taxes for manufacturers, this has been the main lure for foreign investors, who are flocking in Ireland in record numbers.

As a result, unemployment, while still above 50 per cent, is coming down. However, the economy is now experiencing the first signs of a skills shortage—in the software and computer sectors, for instance.

The low investor profit tax, which is 10 per cent, is also a major attraction. Investors will be looking for greater inflation, particularly the largely non-union foreign-owned multinational sector which drives the economy. The government, in part, is looking at ways to encourage more union profit sharing as a way to compensate workers.

But a strong euro, or with the prospect of an economic slow down, could be the threat of over-inflated Irish living costs. The economic problems of the



Forecasts of the European Commission from October 1998

	1997	1998	1999	2000
GDP	2.5	2.5	2.5	2.5
Domestic demand	1.4	1.5	1.7	1.8
Net trade (1)	1.1	1.0	0.8	0.7
Consumer prices	0.4	0.4	0.4	0.4
GDP deflator	0.4	0.4	0.4	0.4
Unemployment (2)	7.2	7.2	7.2	7.2
Current account (3)	1.1	1.1	1.1	1.1
Short term interest rates	4.5	4.5	4.5	4.5
Long term interest rates	4.5	4.5	4.5	4.5
Public sector (4)	1.1	1.1	1.1	1.1
Government expenditure (5)	1.1	1.1	1.1	1.1
Government revenue (6)	1.1	1.1	1.1	1.1
Government deficit (7)	1.1	1.1	1.1	1.1
Government debt (8)	1.1	1.1	1.1	1.1
Government debt to GDP (9)	1.1	1.1	1.1	1.1
Government debt to public sector (10)	1.1	1.1	1.1	1.1
Government debt to private sector (11)	1.1	1.1	1.1	1.1
Government debt to foreign (12)	1.1	1.1	1.1	1.1
Government debt to EU (13)	1.1	1.1	1.1	1.1
Government debt to non-EU (14)	1.1	1.1	1.1	1.1
Government debt to public sector (15)	1.1	1.1	1.1	1.1
Government debt to private sector (16)	1.1	1.1	1.1	1.1
Government debt to foreign (17)	1.1	1.1	1.1	1.1
Government debt to EU (18)	1.1	1.1	1.1	1.1
Government debt to non-EU (19)	1.1	1.1	1.1	1.1
Government debt to public sector (20)	1.1	1.1	1.1	1.1
Government debt to private sector (21)	1.1	1.1	1.1	1.1
Government debt to foreign (22)	1.1	1.1	1.1	1.1
Government debt to EU (23)	1.1	1.1	1.1	1.1
Government debt to non-EU (24)	1.1	1.1	1.1	1.1
Government debt to public sector (25)	1.1	1.1	1.1	1.1
Government debt to private sector (26)	1.1	1.1	1.1	1.1
Government debt to foreign (27)	1.1	1.1	1.1	1.1
Government debt to EU (28)	1.1	1.1	1.1	1.1
Government debt to non-EU (29)	1.1	1.1	1.1	1.1
Government debt to public sector (30)	1.1	1.1	1.1	1.1
Government debt to private sector (31)	1.1	1.1	1.1	1.1
Government debt to foreign (32)	1.1	1.1	1.1	1.1
Government debt to EU (33)	1.1	1.1	1.1	1.1
Government debt to non-EU (34)	1.1	1.1	1.1	1.1
Government debt to public sector (35)	1.1	1.1	1.1	1.1
Government debt to private sector (36)	1.1	1.1	1.1	1.1
Government debt to foreign (37)	1.1	1.1	1.1	1.1
Government debt to EU (38)	1.1	1.1	1.1	1.1
Government debt to non-EU (39)	1.1	1.1	1.1	1.1
Government debt to public sector (40)	1.1	1.1	1.1	1.1
Government debt to private sector (41)	1.1	1.1	1.1	1.1
Government debt to foreign (42)	1.1	1.1	1.1	1.1
Government debt to EU (43)	1.1	1.1	1.1	1.1
Government debt to non-EU (44)	1.1	1.1	1.1	1.1
Government debt to public sector (45)	1.1	1.1	1.1	1.1
Government debt to private sector (46)	1.1	1.1	1.1	1.1
Government debt to foreign (47)	1.1	1.1	1.1	1.1
Government debt to EU (48)	1.1	1.1	1.1	1.1
Government debt to non-EU (49)	1.1	1.1	1.1	1.1
Government debt to public sector (50)	1.1	1.1	1.1	1.1
Government debt to private sector (51)	1.1	1.1	1.1	1.1
Government debt to foreign (52)	1.1	1.1	1.1	1.1
Government debt to EU (53)	1.1	1.1	1.1	1.1
Government debt to non-EU (54)	1.1	1.1	1.1	1.1
Government debt to public sector (55)	1.1	1.1	1.1	1.1
Government debt to private sector (56)	1.1	1.1	1.1	1.1
Government debt to foreign (57)	1.1	1.1	1.1	1.1
Government debt to EU (58)	1.1	1.1	1.1	1.1
Government debt to non-EU (59)	1.1	1.1	1.1	1.1
Government debt to public sector (60)	1.1	1.1	1.1	1.1
Government debt to private sector (61)	1.1	1.1	1.1	1.1
Government debt to foreign (62)	1.1	1.1	1.1	1.1
Government debt to EU (63)	1.1	1.1	1.1	1.1
Government debt to non-EU (64)	1.1	1.1	1.1	1.1
Government debt to public sector (65)	1.1	1.1	1.1	1.1
Government debt to private sector (66)	1.1	1.1	1.1	1.1
Government debt to foreign (67)	1.1	1.1	1.1	1.1
Government debt to EU (68)	1.1	1.1	1.1	1.1
Government debt to non-EU (69)	1.1	1.1	1.1	1.1
Government debt to public sector (70)	1.1	1.1	1.1	1.1
Government debt to private sector (71)	1.1	1.1	1.1	1.1
Government debt to foreign (72)	1.1	1.1	1.1	1.1
Government debt to EU (73)	1.1	1.1	1.1	1.1
Government debt to non-EU (74)	1.1	1.1	1.1	1.1
Government debt to public sector (75)	1.1	1.1	1.1	1.1
Government debt to private sector (76)	1.1	1.1	1.1	1.1
Government debt to foreign (77)	1.1	1.1	1.1	1.1
Government debt to EU (78)	1.1	1.1	1.1	1.1
Government debt to non-EU (79)	1.1	1.1	1.1	1.1
Government debt to public sector (80)	1.1	1.1	1.1	1.1
Government debt to private sector (81)	1.1	1.1	1.1	1.1
Government debt to foreign (82)	1.1	1.1	1.1	1.1
Government debt to EU (83)	1.1	1.1	1.1	1.1
Government debt to non-EU (84)	1.1	1.1	1.1	1.1
Government debt to public sector (85)	1.1	1.1	1.1	1.1
Government debt to private sector (86)	1.1	1.1	1.1	1.1
Government debt to foreign (87)	1.1	1.1	1.1	1.1
Government debt to EU (88)	1.1	1.1	1.1	1.1
Government debt to non-EU (89)	1.1	1.1	1.1	1.1
Government debt to public sector (90)	1.1	1.1	1.1	1.1
Government debt to private sector (91)	1.1	1.1	1.1	1.1
Government debt to foreign (92)	1.1	1.1	1.1	1.1
Government debt to EU (93)	1.1	1.1	1.1	1.1
Government debt to non-EU (94)	1.1	1.1	1.1	1.1
Government debt to public sector (95)	1.1	1.1	1.1	1.1
Government debt to private sector (96)	1.1	1.1	1.1	1.1
Government debt to foreign (97)	1.1	1.1	1.1	1.1
Government debt to EU (98)	1.1	1.1	1.1	1.1
Government debt to non-EU (99)	1.1	1.1	1.1	1.1
Government debt to public sector (100)	1.1	1.1	1.1	1.1

Economic forecasts for the euro-zone

While strict comparisons between different sets of euro-zone economic statistics may not be possible because of the slightly different time-lag in reporting, it is interesting to note the moving trends that emerge and some of the clear differences of opinion. Presented below are four sets of aggregate forecasts for the European economy. The first ECU figures are from the European Commission and now form part of its regular spring and autumn forecasts for the euro-zone. The second set of figures is from the OECD Economic Outlook, which was published in December 1998. The third set is from the UK's National Institute of Economic and Social Research (NIESR) and was published in January 1999. The fourth set of forecasts is from Goldman Sachs and was published as part of its January/February European Economic Analysis, by presenting the four sets of figures, readers can compare the views of these institutions. It is worth noting that as member countries release statistics the aggregate forecasts will change, and this is what produces the effect of comparability between the forecasts. Later versions have more 1998 data available to them than those which were produced earlier.

The later forecasts are not as optimistic as the earlier ones about prospects for growth in the European economic area this year and next. However, inflationary pressures remain weak in all the forecasts. Goldman Sachs and the NIESR both predict inflation as low as 1 per cent this year. For interest rates, the OECD, NIESR and Goldman Sachs all forecast further falls in short term rates. All the forecasts predict further modest falls in unemployment during this year, but option differs over what will happen the following year. For 1999, the European Commission forecasts a further slight uptick, which would take the unemployment rate back to a disappointing 11 per cent.

	1997	1998	1999	2000
GDP	2.5	2.5	2.5	2.5
Domestic demand	1.4	1.5	1.7	1.8
Net trade (1)	1.1	1.0	0.8	0.7
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GDP deflator	0.4	0.4	0.4	0.4
Unemployment (2)	7.2	7.2	7.2	7.2
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Government debt to private sector (11)	1.1	1.1	1.1	1.1
Government debt to foreign (12)	1.1	1.1	1.1	1.1
Government debt to EU (13)	1.1	1.1	1.1	1.1
Government debt to non-EU (14)	1.1	1.1	1.1	1.1
Government debt to public sector (15)	1.1	1.1	1.1	1.1
Government debt to private sector (16)	1.1	1.1	1.1	1.1
Government debt to foreign (17)	1.1	1.1	1.1	1.1
Government debt to EU (18)	1.1	1.1	1.1	1.1
Government debt to non-EU (19)	1.1	1.1	1.1	1.1
Government debt to public sector (20)	1.1	1.1	1.1	1.1
Government debt to private sector (21)	1.1	1.1	1.1	1.1
Government debt to foreign (22)	1.1	1.1	1.1	1.1
Government debt to EU (23)	1.1	1.1	1.1	1.1
Government debt to non-EU (24)	1.1	1.1	1.1	1.1
Government debt to public sector (25)	1.1	1.1	1.1	1.1
Government debt to private sector (26)	1.1	1.1	1.1	1.1
Government debt to foreign (27)	1.1	1.1	1.1	1.1
Government debt to EU (28)	1.1	1.1	1.1	1.1
Government debt to non-EU (29)	1.1	1.1	1.1	1.1
Government debt to public sector (30)	1.1	1.1	1.1	1.1
Government debt to private sector (31)	1.1	1.1	1.1	1.1
Government debt to foreign (32)	1.1	1.1	1.1	1.1
Government debt to EU (33)	1.1	1.1	1.1	1.1
Government debt to non-EU (34)	1.1	1.1	1.1	1.1
Government debt to public sector (35)	1.1	1.1	1.1	1.1
Government debt to private sector (36)	1.1	1.1	1.1	1.1
Government debt to foreign (37)	1.1	1.1	1.1	1.1
Government debt to EU (38)	1.1	1.1	1.1	1.1
Government debt to non-EU (39)	1.1	1.1	1.1	1.1
Government debt to public sector (40)	1.1	1.1	1.1	1.1
Government debt to private sector (41)	1.1	1.1	1.1	1.1
Government debt to foreign (42)	1.1	1.1	1.1	1.1
Government debt to EU (43)	1.1	1.1	1.1	1.1
Government debt to non-EU (44)	1.1	1.1	1.1	1.1
Government debt to public sector (45)	1.1	1.1	1.1	1.1
Government debt to private sector (46)	1.1	1.1	1.1	1.1
Government debt to foreign (47)	1.1	1.1	1.1	1.1
Government debt to EU (48)	1.1	1.1	1.1	1.1
Government debt to non-EU (49)	1.1	1.1	1.1	1.1
Government debt to public sector (50)	1.1	1.1	1.1	1.1
Government debt to private sector (51)	1.1	1.1	1.1	1.1
Government debt to foreign (52)	1.1	1.1	1.1	1.1
Government debt to EU (53)	1.1	1.1	1.1	1.1
Government debt to non-EU (54)	1.1	1.1	1.1	1.1
Government debt to public sector (55)	1.1	1.1	1.1	1.1
Government debt to private sector (56)	1.1	1.1	1.1	1.1
Government debt to foreign (57)	1.1	1.1	1.1	1.1
Government debt to EU (58)	1.1	1.1	1.1	1.1
Government debt to non-EU (59)	1.1	1.1	1.1	1.1
Government debt to public sector (60)	1.1	1.1	1.1	1.1
Government debt to private sector (61)	1.1	1.1	1.1	1.1
Government debt to foreign (62)	1.1	1.1	1.1	1.1
Government debt to EU (63)	1.1	1.1	1.1	1.1
Government debt to non-EU (64)	1.1	1.1	1.1	1.1
Government debt to public sector (65)	1.1	1.1	1.1	1.1
Government debt to private sector (66)	1.1	1.1	1.1	1.1
Government debt to foreign (67)	1.1	1.1	1.1	1.1
Government debt to EU (68)	1.1	1.1	1.1	1.1
Government debt to non-EU (69)	1.1	1.1	1.1	1.1
Government debt to public sector (70)	1.1	1.1	1.1	1.1
Government debt to private sector (71)	1.1	1.1	1.1	1.1
Government debt to foreign (72)	1.1	1.1	1.1	1.1
Government debt to EU (73)	1.1	1.1	1.1	1.1
Government debt to non-EU (74)	1.1	1.1	1.1	1.1
Government debt to public sector (75)	1.1	1.1	1.1	1.1
Government debt to private sector (76)	1.1	1.1	1.1	1.1
Government debt to foreign (77)	1.1	1.1	1.1	1.1
Government debt to EU (78)	1.1	1.1	1.1	1.1
Government debt to non-EU (79)	1.1	1.1	1.1	1.1
Government debt to public sector (80)	1.1	1.1	1.1	1.1
Government debt to private sector (81)	1.1	1.1	1.1	1.1
Government debt to foreign (82)	1.1	1.1	1.1	1.1
Government debt to EU (83)	1.1	1.1	1.1	1.1
Government debt to non-EU (84)	1.1	1.1	1.1	1.1
Government debt to public sector (85)	1.1	1.1	1.1	1.1
Government debt to private sector (86)	1.1	1.1	1.1	1.1
Government debt to foreign (87)	1.1	1.1	1.1	1.1
Government debt to EU (88)	1.1	1.1	1.1	1.1
Government debt to non-EU (89)	1.1	1.1	1.1	1.1
Government debt to public sector (90)	1.1	1.1	1.1	1.1
Government debt to private sector (91)	1.1	1.1	1.1	1.1
Government debt to foreign (92)	1.1	1.1	1.1	1.1
Government debt to EU (93)	1.1	1.1	1.1	1.1
Government debt to non-EU (94)	1.1	1.1	1.1	1.1
Government debt to public sector (95)	1.1	1.1	1.1	1.1
Government debt to private sector (96)	1.1	1.1	1.1	1.1
Government debt to foreign (97)	1.1	1.1	1.1	1.1
Government debt to EU (98)	1.1	1.1	1.1	1.1
Government debt to non-EU (99)	1.1	1.1	1.1	1.1
Government debt to public sector (100)	1.1	1.1	1.1	1.1

Forecasts of the OECD November 1998 (continued)				
	1997	1998	1999	2000
Financial sector				
Short term interest rates	4.2	3.9	3	2.5
Long term interest rates	5.9	4.7	4.2	3.5
Public sector				
Government Expenditure (3)	40.3	40.7	40.3	41
Government Revenue (5)	46.8	46.4	46.2	46
Government deficit (4)	-2.6	-2.8	-2.9	-3.1
Public debt (2)	75.2	73.9	73.1	71



Italy by James Blitz in Rome

Low growth puts budget target at risk

Italy shows no sign of deviating from the tight control of its public finances that was required to get the country admitted to the euro. But some economists believe that low growth rates could mean that lower tax receipts will mean it must spend more to meet its budget target.

The country should post a budget deficit for 1998 which is between 5.5 and 5.7 per cent of gross domestic product, slightly above the target set out by the Treasury last April.

Although this is due to the impact of lower-than-expected growth in 1998 (expected to come in at around 1.5 per cent), the budget deficit figure would still be within the limits allowed by the Maastricht treaty.

The government is also expected to reaffirm its pledge to reduce further the budget deficit and debt in a three- or possibly four-year plan to be published in the spring.

The economic slowdown

AUSTRIA by Eric Frey in Vienna

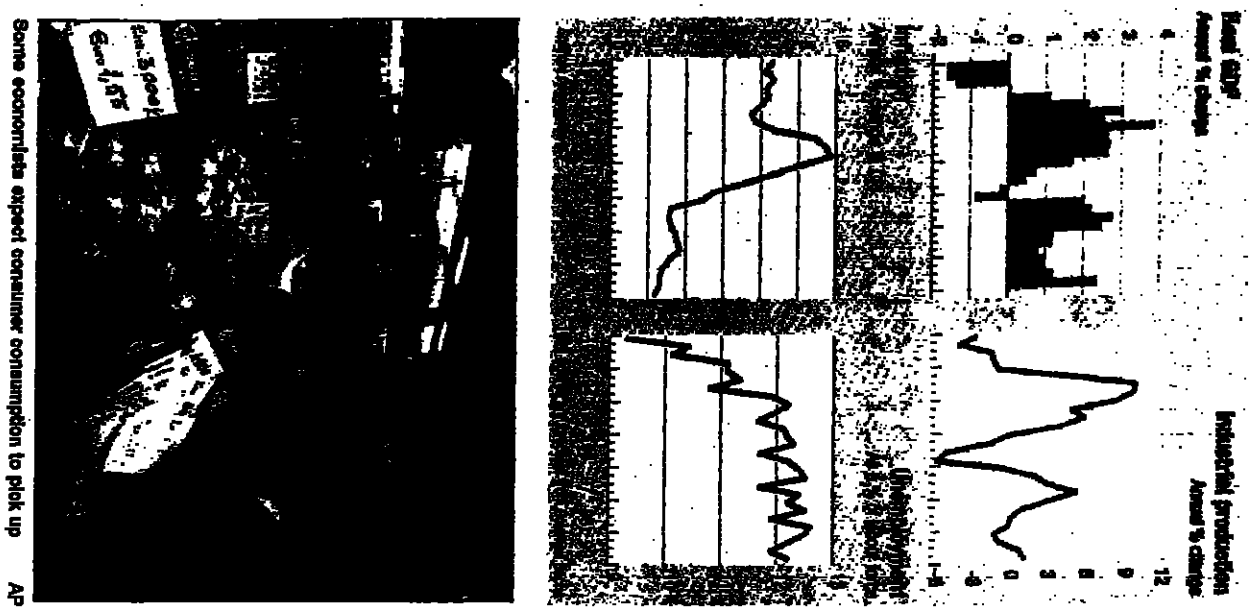
Slowdown should be short lived

Economic growth in Austria is poised to slow down this year following an excellent performance in 1998, when gross domestic product expanded by 3.3 per cent.

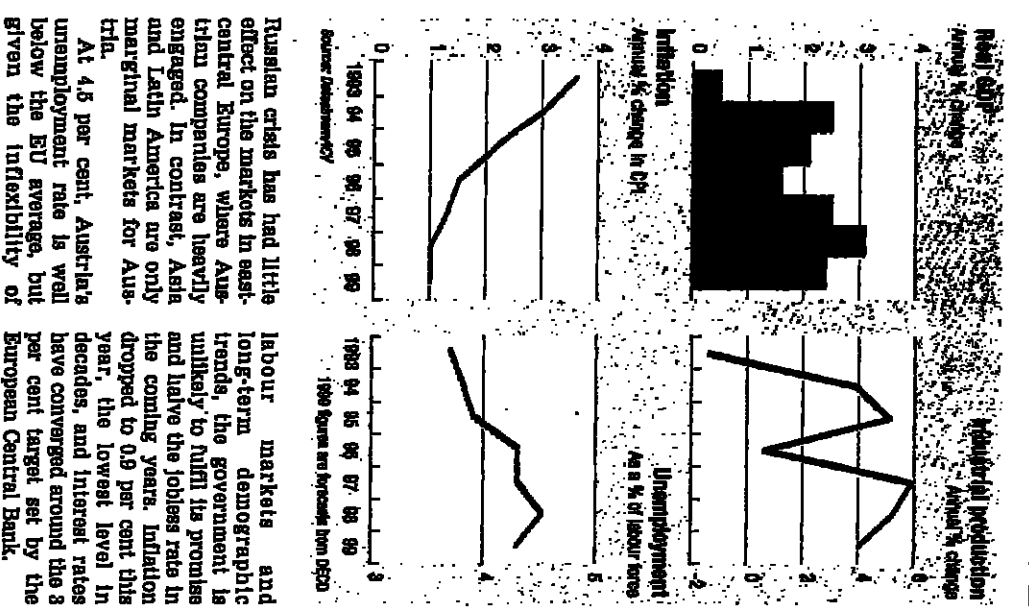
A sharp decline in export growth in the wake of the Asian and Latin American financial crisis has already cut an industrial order backlog and given most export-oriented companies a cautious outlook for the year.

The latest downward revision by the two leading economic research institutes, Wifo and IHS, puts the 1999 growth rate at 2.4 per cent, but other economists do not expect more than 2 per cent GDP growth.

The biggest risk factor is Germany, Austria's main trading partner, where at least one leading research



Some economists expect consumer consumption to pick up



Tooled up for the single market

Of the many medium-sized manufacturers across Europe which have been struggling to assess the consequences of the new single European currency, Mandrell, a leading Italian machine tool producer, has probably devoted more thought to the issue than most.

Like many machine tool makers, Mandrell is highly international in its outlook. Of last year's sales of L1,100 (about £60m) only about a third came from customers in Italy, with 40 per cent coming from the rest of the euro-zone, North America, and European nations, such as the UK, outside the euro-zone, account for relatively large parts of the company's sales.

Mandrell has been quick to convert most of its products into euros. Customers in each of the 11 euro-zone countries will pay the same euro price for, for the time being, its local currency equivalent for the same machine. Although Andreas Mattarelli, Mandrell's chief executive, expects that this year only 10 per cent of euro-zone customers will opt to pay in euros, he expects this figure will grow over time. "It will make life easier for us by simplifying our operations," he says.

Mr Mattarelli owns just over 30 per cent of the company. He took his stake, and became chief executive, just over two years ago, after previously working in the venture capital industry, electronics and shipping. The rest of the company is owned by several other private shareholders.

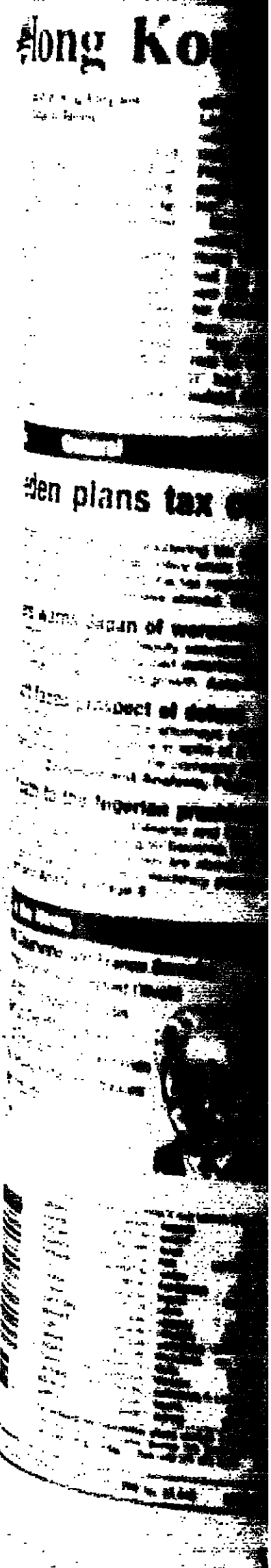
Mr Mattarelli's thoughts on the euro follow the trend logic that led to politicians and economists proposing it in the first place. First, Mandrell, like many other manufacturers and traders operating in the euro-zone, should gain through paying its suppliers in euros. Finally, Mandrell, assuming it is an efficient producer, should benefit through having a single reference price for a specific machine

across the euro-zone. This is the argument related to the "price transparency" effect of the euro.

However, in the machine tool industry, two special factors interfere somewhat with the price transparency impact of the euro. First, even with such transparency, it may be difficult for customers in different parts of the euro-zone to compare, on a like-for-like basis, machines made by different manufacturers. This is because - as in many other cases of specialized machinery - machine tools normally are sold to the customer with a range of added features provided to meet specific requirements on a factory floor. There may also be additional "service packages".

The second factor is the variation in payment conditions for machine tools across the continent - a subject which has concerned Mr Mattarelli as he ponders the impact of the new currency on his company. According to Mr Mattarelli, discounts on machine tools, as a proportion of list price, range across Europe from as much as 15 per cent in Italy, to perhaps half this in the UK. These cultural traits lead to a distortion in final customer prices (important for tools costing several hundred thousand euros) that the euro will do little to ease. However, in setting a single euro price, "we will have to live with this [different national payment practices]," says Mr Mattarelli. This means customers in Italy, assuming they continue to buy, may have to expect large discounts, lower prices than those elsewhere in the euro-zone. But Mr Mattarelli argues off the impact. "The logic of having as much as possible, one price for across Europe is compelling and should lead to advantages in the long run."

Peter Marsh



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